Geo. A. Hormel & Company Annual Report -- 1981
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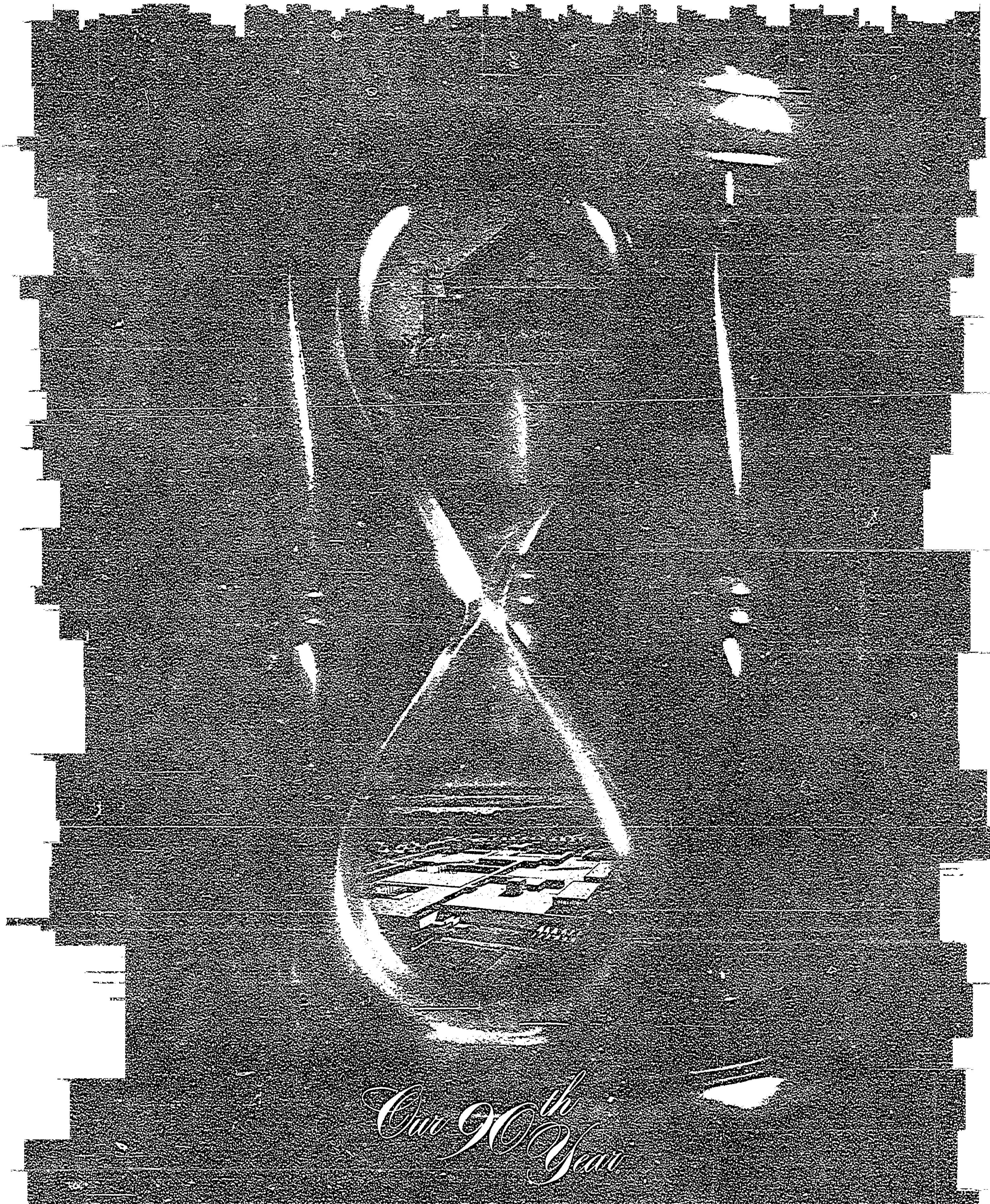

ANNUAL REPORT GEO. A. HORMEL & COMPANY / AUSTIN, MN 55912 / *FISCAL YEAR ENDED OCT. 31, 1981*

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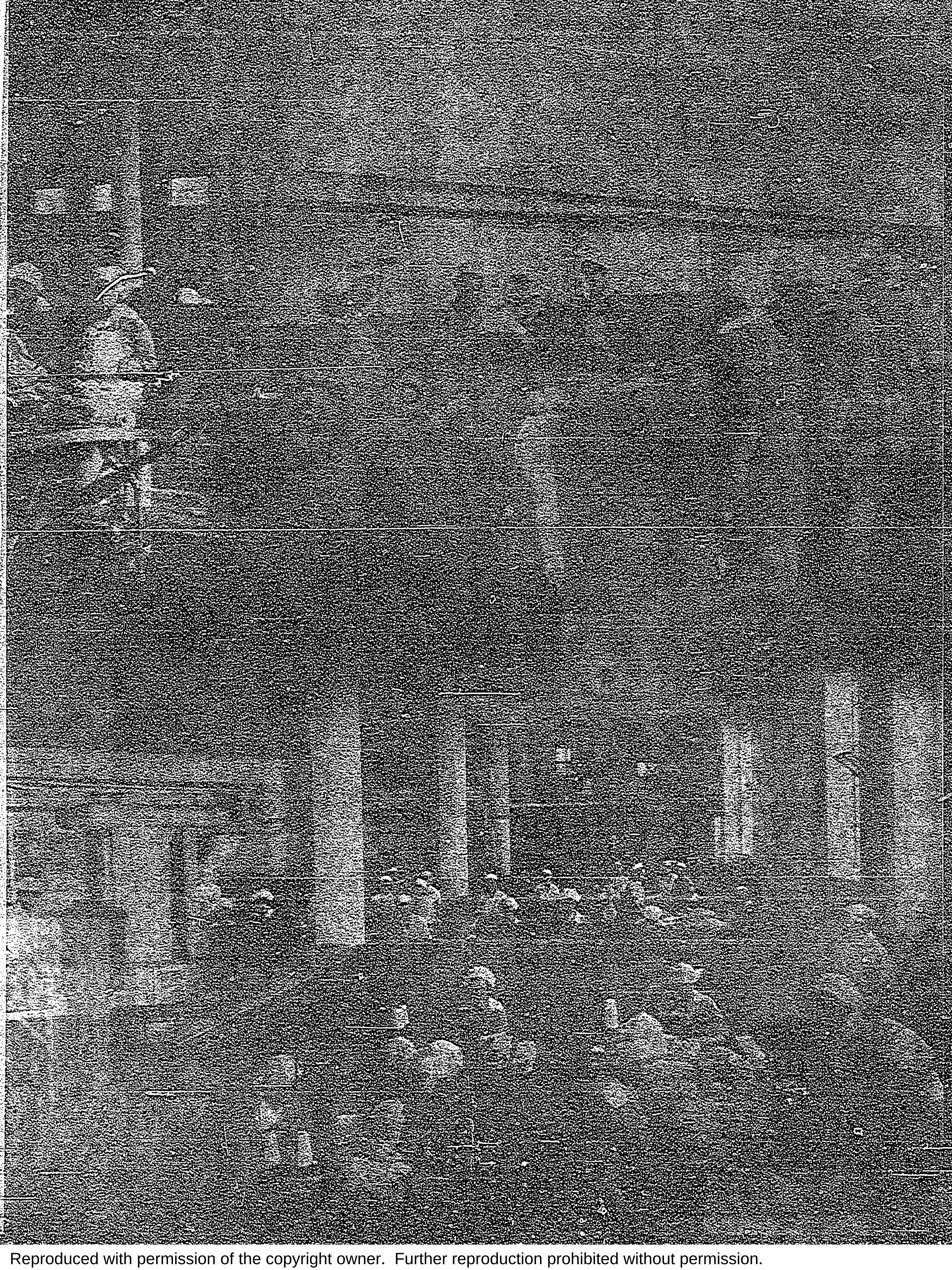

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Financial Highlights

	1981	1980
Net Sales	$1,433,966,000	$1,321,966,000
Net Earnings	$ 27,283,000	$ 32,758,000
Per Share of Common Stock	$ 2.84	$ 3.41
Per Cent of Sales	1.90%	2.48%
Dividends to Stockholders	$ 8,838,000	$ 8,069,000
Per Share of Common Stock	$ .92	$ .84
Capital Additions	$ 82,522,000	$ 55,669,000
Depreciation	$ 13,887,000	$ 13,452,000
Working Capital	$ 59,440,000	$ 69,843,000
Stockholders' Investment	$ 226,741,000	$ 208,296,000

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Management's

Top: George A. and Jay C. Hormel.
Bottom: I. J. Holton and R. L. Knowlton.

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Letter

Fiscal 1981 operations — the 90th anniversary year of your Company — were conducted in a difficult and uncertain economic climate. It was a year that posed problems for all segments of the meat industry as high interest rates and rising unemployment caused consumers to spend a smaller share of their incomes for the part of their budget committed to meat. Thus, prices of meat at the retail level were inadequate to provide acceptable margins for livestock producers; the corresponding following pressures on margins were also quickly felt by the meat processing industry.

Although sales tonnage was somewhat less than the preceding year, dollar sales increased, reflecting slightly higher prices.

Capital expenditures during the year set still another record, totaling some $74.5 million. The Company's capital improvements program peaked during 1981. Although 1982 capital investments will be substantial, they are expected to be less than last year.

The new Austin (Minn.) replacement plant approaches its scheduled completion with initial operations to commence in late May.

Additional major projects involving expansion at the Ottumwa (Iowa) hog slaughtering/food processing plant, Knoxville (Iowa) dry sausage manufacturing plant and Beloit (Wis.) canning plant were completed during the year. Yet another expansion of the Vista International Packaging, Inc., casing plant in Kenosha, Wis., is underway. A new distribution plant now nearing completion in Hayward, Calif., will provide improved service to the northern California area.

Concerted management efforts are continually directed to the development of new technology and processes. Economic labor advantages are being experienced by operators who are processing an increasingly larger percentage of the total meat available while enjoying lower than industry standard labor rates and accompanying reduced benefit programs.

In view of the above, it was with reluctance that announcement was made at mid-year of the discontinuance of most operations at the Fort Dodge (Iowa) plant, this facility being the last of the Company's inefficient, multi-storied operations. Hormel also terminated its custom-slaughter beef contract in Scottsbluff, Neb., and announced late in the year the forthcoming permanent closing of its small cow slaughtering plant in Springfield, Mo.

During the year, the Company negotiated a $75 million revolving credit arrangement with a consortium of three major banks. This was done as an interim measure with the expectation that intermediate- and long-term interest rates will trend downward to a more suitable level some time within the next year or two. It is and has been planned to issue debt to fund expenditures involved with the Company's very ambitious building program.

Continued major emphasis is placed on strategic planning. Participation in this effort is widespread, effective and enthusiastic.

The Company's management efforts have benefited greatly from the contributions of Clayton T. Kingston, vice-president of pork operations, who retired in mid-year after a long and distinguished career. Bruce Corey, after 32 years of faithful service, retired as vice-president of planning and engineering.

Several administrative positions made during the past year further strengthened the organization with experienced, knowledgeable management. E. C. Alsaker was elected senior vice-president; Frank M. Brown was elected a vice-president to succeed Corey; James N. Rieth was elected vice-president of strategic planning and development, and Charles D. Nyberg was named general counsel. He also continues as the Company's secretary.

Ray V. Rose, a successful, highly-experienced food retailing executive, was elected to the Board of Directors near the end of the fiscal year. He joins four other non-employees now serving on the Hormel Board.

I. J. Holton relinquished his responsibilities as the Company's chief executive officer, but will continue to serve for a limited period as chairman of the executive committee and as a member of the Hormel Board of Directors. R. L. Knowlton, Company president, was elected chief executive officer.

Early in the year, the Board of Directors approved another increase in the quarterly dividend rate, representing the 13th consecutive year of higher dividends to stockholders. This action illustrates the Company's financial strength and management's optimism about future prospects.

Operating plans for fiscal 1982 have been completed. They are ambitious. With record feed grain crops in prospect, livestock supplies are expected to be reasonably adequate. Accompanied by the impending completion of the Austin plant and modern processing facilities in most all locations, the future prospects for Geo. A. Hormel & Company remain excellent.

R. L. KNOWLTON
President
Chief Executive Officer

I. J. HOLTON
Chairman of the
Executive Committee

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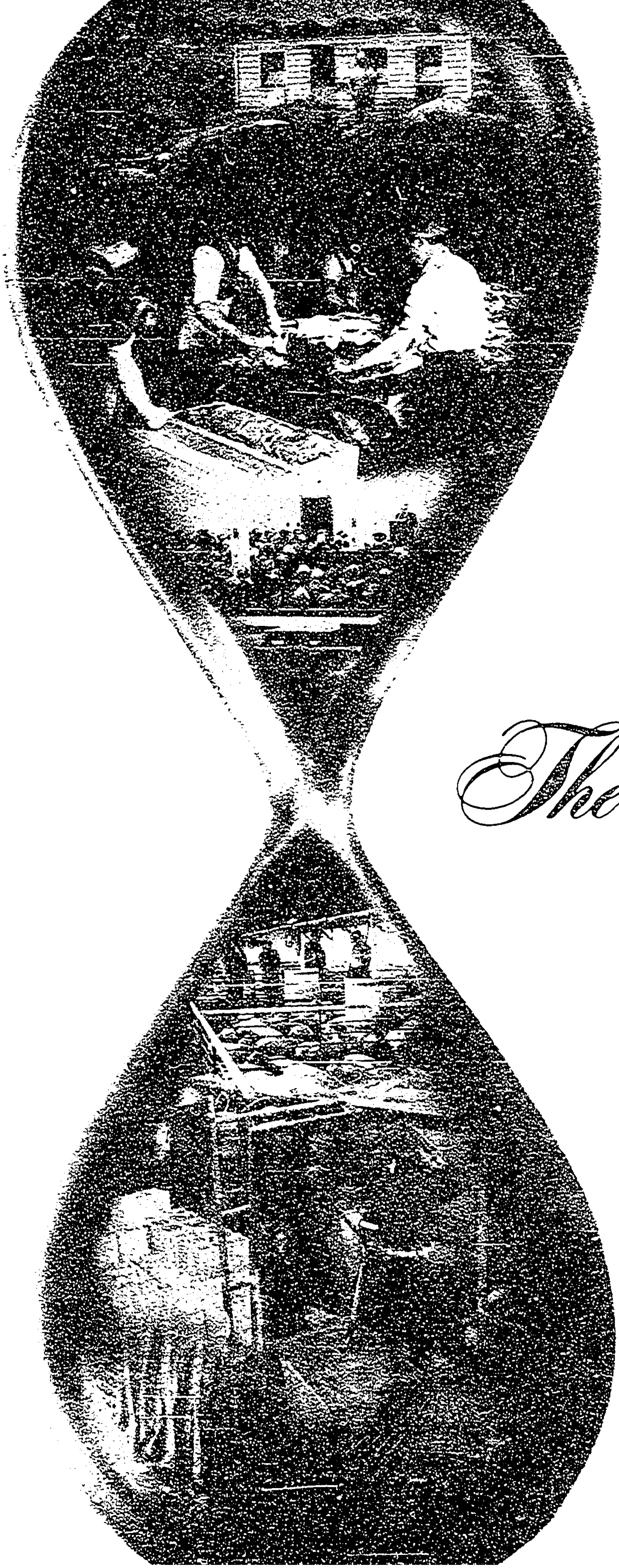

The Year in

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Review

Fiscal 1981 marked the 90th anniversary of Geo. A. Hormel & Company. It was a milestone year, one marked by both accomplishments and disappointments. It was also a year to note with pride the nine decades of growth and achievement and, most importantly, a year which ended with firm confidence in improved prospects for the extended future.

Geo. A. Hormel & Company performed very well against the downtrending economy of fiscal 1981. Total dollar sales, after returns and allowances, reached a record $1,433,966,000, an increase of 8.5 per cent over 1980. This marks the 21st time in the past 22 years that the Company has established a new sales record. Net income was the third highest in history, exceeded only in 1980 and 1979, respectively.

Despite the pressures of inflation, the Company's commitment to the future was not altered – a commitment most visibly expressed through a capital expansion program that was enlarged by 33.9 per cent over last year's allocation. Total assets increased by 19 per cent to $425,065,000, and stockholders' equity rose nine per cent to more than $226,741,000.

Cash dividends were increased for the 13th consecutive year. During this period, payments to stockholders rose at an average annual rate of 10.5 per cent. In 1981, dividend payments were 9.5 per cent higher than the previous fiscal year.

In short, the magnitude of these achievements is reflected by the fact that 1981 was a difficult year for business, in general, and for the meat industry, in particular.

Dollar Sales Climb to Record High

Record sales dollars totaled $1,433,966,000, an increase of 8.5 per cent over 1980 and an improvement of $19,950,000, or 1.4 per cent over the previous record established in 1979.

The improvement is attributable to higher prices necessitated by higher costs of materials and services. Despite higher prices, consumer demand for Company branded processed products continued to be strong. Sales volume of fresh meats, however, declined in 1981 due, in large part, to planned reductions, particularly in beef operations.

A good supply of hogs and pork was available throughout the year with live hog prices ranging from the high to low $40 per hundredweight range. The huge corn crop of last fall should assure relative stability in live hog prices for fiscal 1982.

Net Earnings

Net income for the year, although the third highest on record, was down about 16.7 per cent from the record earnings of $32,758,000 recorded in 1980, and nine per cent from fiscal 1979 earnings of $29,970,000, the Company's second best year.

Earnings per share were $2.84, a drop of 57 cents per share from 1980 earnings of $3.41.

When related to return on dollar of sales, net income was 1.90 cents in 1981 as compared to 2.48 cents the previous year.

Earnings before taxes were enhanced by the capitalization of $8,000,000 of interest under Financial Accounting Standards Board (FASB) Statement No. 34.

Earnings after taxes were further aided this past year by a lower effective tax rate, due primarily to investment tax credits resulting from the Company's aggressive capital investment program. Because of the Economic Recovery Tax Act of 1981, Hormel will continue to experience for some time an improvement in cash flow from the tax deferral granted by the Accelerated Cost Recovery provisions.

The margin pressures placed on Company fresh meats or commodity-type products was intense throughout most of the year. Consumers were buffeted by high inflation, high interest rates and higher prices on most of their purchases. As basic sectors of the economy slowed down, consumers showed a resistance to price increases which, in turn, led to a lower demand for red meat products.

Capital Expenditures

Despite the economic downturn, Geo. A. Hormel & Company maintained a high level of capital expenditures in preparation for future growth. Total capital expenditures for 1981, including property, plant and equipment, were $74,522,000, highest in the Company's history, and compared with $54,601,000 in fiscal 1980. In addition, $8,000,000 of interest was capitalized in compliance with FASB Statement No. 34 in 1981 versus $1,068,000 in 1980.

The principal projects during the year revolved around the Austin (Minn.) replacement plant and expansions at Ottumwa and Knoxville, Iowa, and Beloit, Wis.

In the five years from 1977-81, Hormel has invested slightly less than $200 million in an aggressive program designed to produce growth and substantial improvement in profitability.

Capital expenditures during fiscal 1982 should reach $45 million, in addition to capitalized interest, at which time the total five-year (1978-82) investment dollars will approximate the entire net worth of the Company.

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Depreciation for the fiscal year was $13,887,000, an increase of $435,000 over the previous year.

Dividend Rate Increase

The Company's fundamental strengths encouraged the Board of Directors to increase the annual dividend on common stock from $.84 to $.92 per share, a gain of 9.5 per cent. The new rate became effective February 15, 1981, with a quarterly dividend of 23 cents a share paid to stockholders of record January 24, 1981.

This is the Company's 13th consecutive annual increase. During this 13-year period, the dividend has risen 277 per cent. It is also the 53rd consecutive year in which dividends have been paid.

Total cash dividends paid and accrued during fiscal 1981 amounted to $8,838,000, compared with $8,069,000 the prior year.

Pension Trusts

The Company's provision for current and past services under the Employee Pension Trusts amounted to $16,900,000 for the year. Past service costs are amortized over a period of 30 years from the date of inception or date of amendment of the plans.

Stockholders' Investment

Stockholders' investment increased to a record $226,741,000, a gain of $18,445,000, or nine per cent over fiscal 1980.

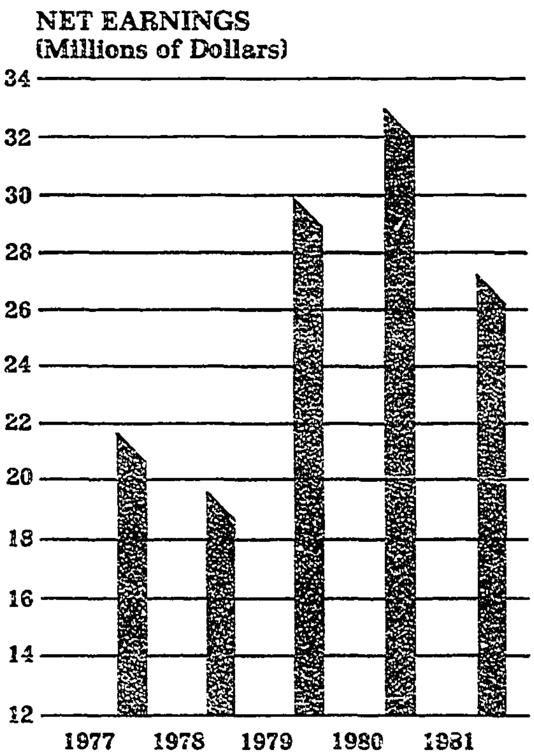
The book value of the 9,606,516 shares of common stock outstanding was $23.60 per share at year-end.

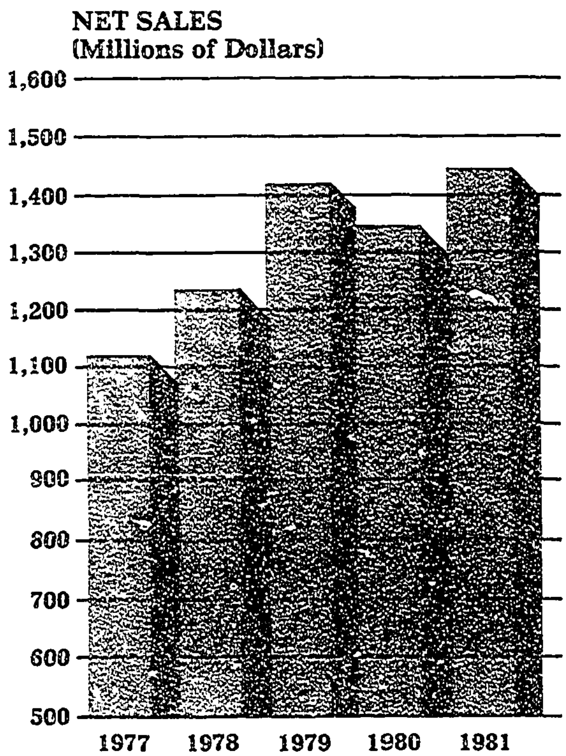
In addition to the annual cash dividend increases over the last 10 years, the stockholders' investment in 1981 is equal to 2.4 times what it was in 1971.

Corporate Debt

Borrowings in the commercial paper market provided funds required in excess of cash flow. The Company has a prime commercial paper rating which has provided funds at rates well below the bank prime rate.

Sales of commercial paper have been supported by bank credit lines. On October 30, 1981, the bulk of these lines were formalized into a revolving credit/term loan agreement with three banks for loans up to an aggregate $75 million. The banks are the First National Bank of Chicago (Ill.), Morgan Guaranty Trust Co. of New York (N.Y.), and the First Bank of Minneapolis (Minn.), each of which has had a long-standing business relationship with Hormel.





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The long-term debt market is improving but progress is expected to be gradual. The line of companies wanting to issue long-term debt is growing. Government deficits still threaten that market. Short-term rates, on the other hand, have dropped dramatically.

Hormel Employees

Employees have shared progressively in the Company's success through higher wages, added benefits, incentives, bonuses and improved working conditions. In fiscal 1982, many of the Company's three-year labor contracts with the United Food and Commercial Workers and other unions will expire and new agreements will be negotiated.

During fiscal 1981, the pressure of the increased cost of production labor relative to the competitive environment in which the Company markets its products was felt severely. The industry has developed a multi-tiered wage and benefit scale which, unfortunately, finds Geo. A. Hormel & Company at the high end. In spite of this disadvantage, the dedicated efforts of all our employees assured customers full value for the dollar spent for Hormel products.

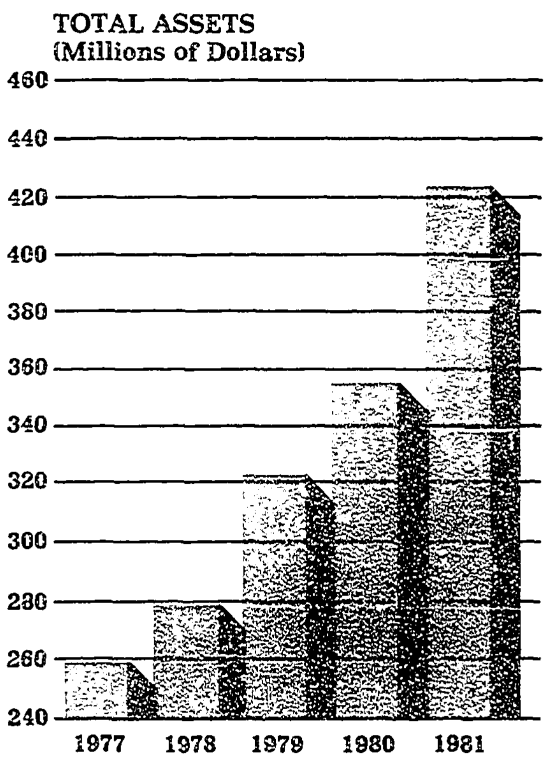
Geo. A. Hormel & Company reaffirms its policy as an equal opportunity employer and will continue its practice of hiring and dealing with all employees on the basis of qualifications, without regard for race, color, religion, sex, national origin, age or handicaps.

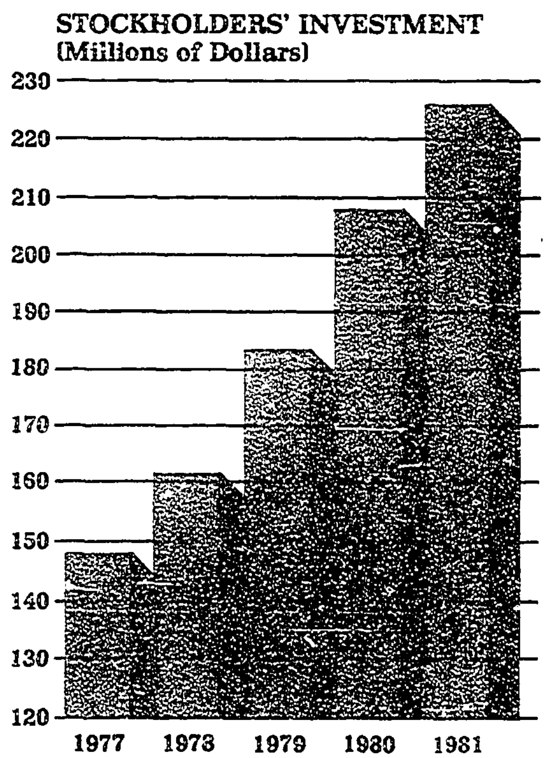
The Company is also continuing its aggressive search for new products. Some of the successes are described elsewhere in this 1981 Report. Late in the fiscal year, Hormel established *IDEA* (Idea Development Employee Awards), a new employee suggestion program which offers cash awards to employees who submit usable new product ideas. The Company is encouraged by the interest employees have already expressed in this program.

Hormel International

Hormel International Corporation, Geo. A. Hormel & Company's wholly-owned subsidiary dealing with international operations, continues to have trademark licensing agreements in England and Australia, as well as more extensive licensing agreements with partially-owned companies in the Dominican Republic (20 per cent), the Philippines (20 per cent), and Japan (50 per cent).

In February, 1980, Hormel Export, Inc., a domestic international sales corporation, was formed to utilize the tax benefit of Hormel International Corporation's export activities.





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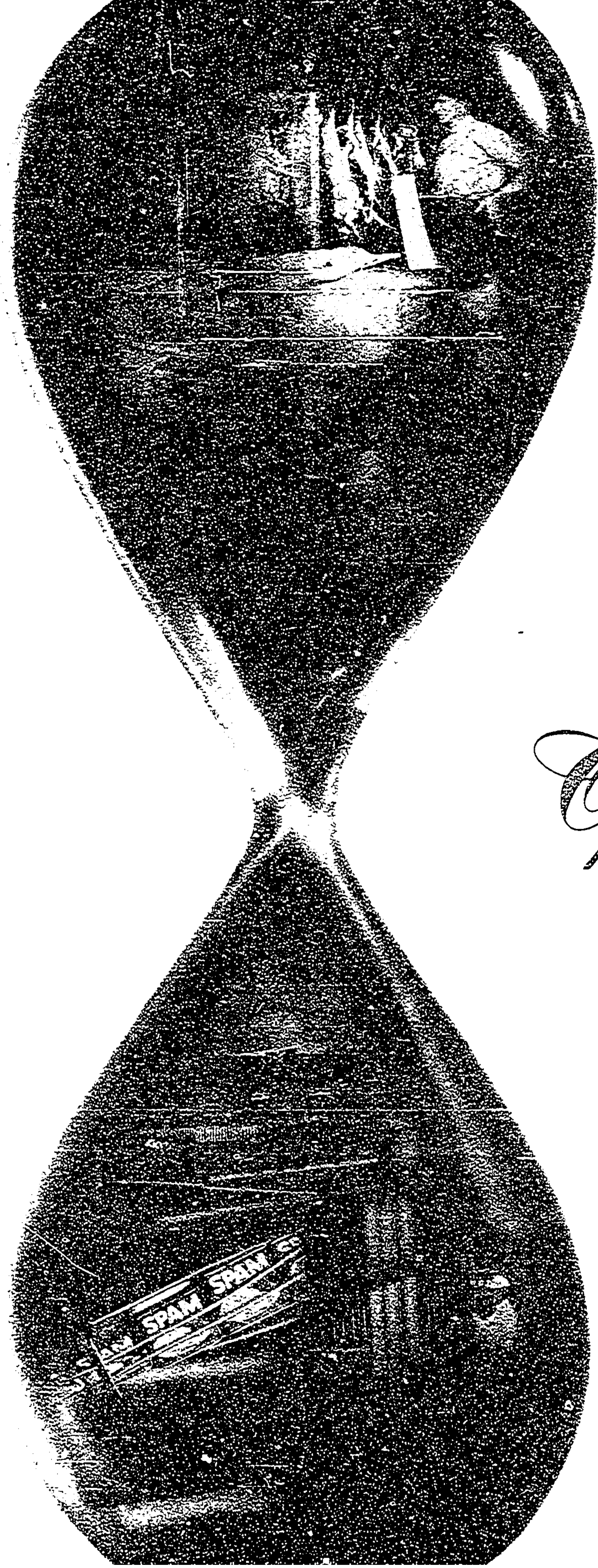

Operations

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Group

Fiscal 1981 results of the Operations Group were adversely affected by reduced supplies and escalating prices for hogs and the continued troubling combination of high inflation and interest rates which placed severe upward pressures on costs and expenses.

Functioning in this difficult environment, major attention was addressed to improving overall efficiencies; in effect, tightening controls and countering rising costs through higher productivity. Pruning where necessary, expanding and modernizing where practical, and innovating wherever possible, the intensified drive to cut costs without harm to product quality or service was uniformly employed. In the end, by prudently concentrating on the areas of brightest promise and retrenching in those that showed signs of being less competitive, the Operations Group has made major contributions to the long-term health and overall corporate strength of the Company.

Austin (Minn.) Plant

Anyone who has observed the dramatic enlargement of the Company's physical facilities and capabilities in recent years must also sense an overriding optimism for future success. Nowhere is this more apparent than in the continued construction of the Austin (Minn.) replacement plant which is moving ever closer to its scheduled completion date.

Facilities for hog slaughtering and processing operations will require work areas on each of the four levels of the new plant. Rendering operations will be located on the lower and main floor levels while grocery products (*SPAM* luncheon meat, *Black Label* ham, *Holiday Glaze* ham, *EXL* ham and bulk luncheon meats), smoked meats (*Cure 81* ham, *Curemaster* ham, *Black Label* bacon and *Range Brand* bacon) and fresh and prepared sausage departments (*Little Sizzlers* pork sausage, *Wranglers* smoked franks and *Hormel* wieners) will be found on the main floor and in mezzanine and loft areas. Dry sausage manufacturing (*Di Lusso, Gran Valore* and *San Remo* genoa salamis, and the full line of *Hormel* summer sausages and thuringers and bone-in and boneless prosciutti hams) will be located on the main floor with additional facilities included in the mezzanine and loft.

Freezers, dry storage, grocery products shipping and provisions shipping facilities are all on the main floor. Mechanical Division operations and other maintenance facilities, plus employee welfare areas and related service departments, are provided on the main floor and loft and lower level. The 28,000 square foot general office area will be located on the second level.

At year-end, all general construction work on the lower level or basement area, the main floor and mezzanine was completed. The fourth level, a 130,000 square foot loft area, will be finished in March of this year.

With the exception of the loft area, all mechanical, refrigeration and electrical work has been completed. Considerable attention was directed in late fall to much of the outside work still remaining. This included final asphalt paving of roadways, installation of curb and gutter and storm drainage systems and landscaping, planting of trees and sodding, around the perimeter of the building structure.

The all-important equipment and machinery installation work continues inside. Piping and electrical lines leading to and from the inedible rendering operation are connected; overhead rail systems for the skinning area, dressing floor and blast chill hog cooler are in place and other key equipment installations for the hog kill/cut area continue.

In the meat products area, all of the processing ovens are in position; blending systems for fresh and prepared sausage departments are in various stages of completion; all ham boning tables are set-up and initial installation is progressing on the curing and packaging equipment required for smoked meats manufacture.

Equipment installation for the *SPAM* luncheon meat batching systems, vat tumblers and mixers and the highly-automated ham canning lines began last fall. A May completion date has been determined for both areas.

Grocery products production will also begin in late May; the hog kill/cut departments and the fat processing operation will be ready by June; meat products manufacturing will commence in July, and dry sausage start-up is slated for August, rendering fully operative the largest single capital investment project in the Company's 90-year history.

Located directly north of the existing Austin plant, the new 1,089,000 square foot facility will have an employee force of nearly 1,200 production workers, plus additional management, administrative, sales and plant supervisory personnel. Production capabilities will exceed 200 million pounds annually.

New Technology

While the Operations Group concentrated its energies and capital investment dollars towards the new Austin plant, another exciting development in 1981 was the movement toward full-scale

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utilization of the Hormel-designed hog skinning process at the Fremont (Neb.) plant.

This highly-mechanized system is expected to revolutionize the current industry approach to hide removal. It is a streamlined operation that cleanly and efficiently separates the skin from the sides of hogs entering the initial processing cycle. It is effectively accomplished without damage to the pigskins themselves or any loss of carcass yield. What results is uniformly high-quality pigskins having greatly increased value to tanning companies needing them in the production of shoes, hats and garment leather goods.

Other potential benefits include improved labor, energy and space-saving features, all leading to increased efficiency, and an easier to clean and maintain operation, enhancing still further all-important sanitation standards. This development is considered to be so promising that a similar installation has been made at the Ottumwa (Iowa) plant and another is included for the new Austin plant.

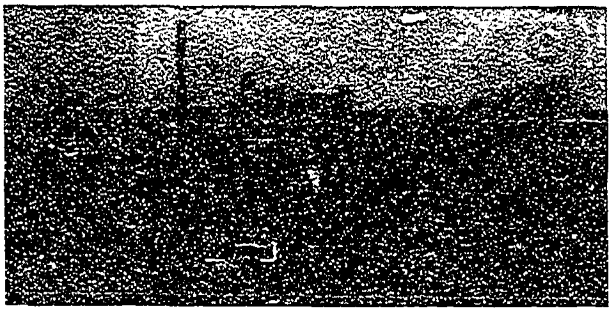
Plant Closings

Elsewhere, in an effort to eliminate inefficiencies and reduce costs, the Operations Group continued its program of consolidating production facilities and closing unprofitable plants. At mid-year, plans were announced to discontinue hog slaughtering and processing operations in Fort Dodge, Iowa, in June, 1982. A continuing downward trend in the supply of hogs in the immediate procurement area; the obsolescence of the plant; the increasing cost of environmental and energy problems, and high, non-competitive labor rates were the main reasons leading to this unpleasant decision.

With the long phase-out period, stresses on employees are being minimized through normal attrition and the option available to qualified employees to transfer to other Company facilities.

Grocery products canning operations will remain in Fort Dodge. *SPAM* luncheon meat, both 7- and 12-oz., the entire *Hormel* ham patties line and several bulk luncheon meat items, *Hormel* spiced ham, chopped ham, chopped pork and spiced luncheon meat, will continue to be produced in the newer, more up-to-date canning facilities in this plant. Pork raw materials needed for these operations will be acquired from other plants. Hog buying territories will be maintained in the farmland areas near Fort Dodge which will augment supplies needed at other Hormel plants.

1930



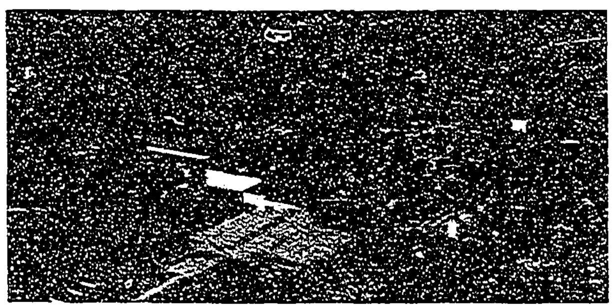
The Austin (Minn.) plant as it appeared 52 years ago.

1967

Following many expansions, this overall view of the Austin (Minn.) plant remains basically unchanged today.

Today

This aerial photograph of the new Austin (Minn.) replacement plant was taken in October, 1981.



A view of the 1,089,000 square foot Austin (Minn.) plant from the southeast.

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Also in 1981, Hormel discontinued a custom slaughtering beef operation in Scottsbluff, Neb., and announced plans to close its Springfield (Mo.) beef slaughtering/boning plant, effective in May of this year. The shut-down of these operations, coupled with the previous closings of the Miami (Okla.) beef slaughtering plant, Mitchell (S.D.) hog slaughtering plant and beef facilities in Austin and Fremont, respectively, has led to more economical use of remaining Company slaughtering and processing locations.

Hormel now engages in contract beef slaughtering at plants in Huron, S.D., and Rockville, Mo., and also operates hog slaughtering/processing plants in Austin, Fremont and Ottumwa and (until the summer of 1982) at Fort Dodge. Due to the higher degree of operating efficiencies afforded at the new Austin plant and at the Ottumwa and Fremont plants, it has been possible to discontinue unprofitable facilities with no negative effect on Company-wide manufacturing capabilities or production.

Energy Considerations

An increasingly important factor in operating results is the benefit of effective fuel and energy management practices. Energy Conservation Committees have been organized at each plant to enlist the aid of employees in finding new ways to save electricity, gasoline, oil and natural gas. These groups are active in developing local programs to improve the efficient use of valuable resources.

Over the past five years, energy efficiency improvements have enabled the Company to save nearly $5 million. In 1981, total energy consumption reached about the same levels as recorded in fiscal 1980 when fuel and energy use, calculated in terms of BTU's per pound of product, was 28.5 per cent less than that of the 1972 base year.

Among the many conservation techniques adopted at various locations during 1981 were recycling of waste heat from processing operations to generate additional steam without the use of increased fuel or energy; continued conversion to trucks with diesel engines; the purchase of smaller cars for Company fleet use, and more careful monitoring and management of power usage.

Earlier in the year, the Fremont plant was cited by the State of Nebraska Energy Office for the many improvements implemented which had resulted in total energy savings of $409,000. The Company earned this award for converting from

1898

An artist's rendition of hog cleaning operations before the turn-of-the-century.

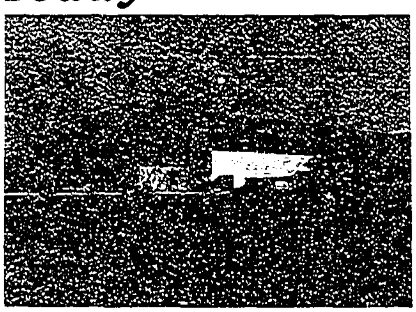
1900

Kindling wood used in the smokehouse operation in the early years of the plant.

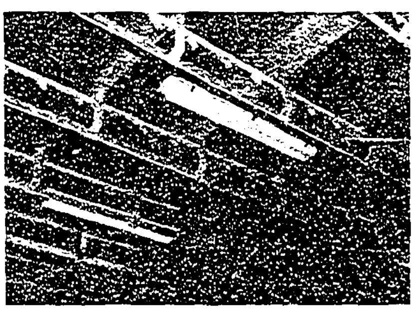
1908

The office building, serving the Austin (Minn.) plant, was constructed in 1908.

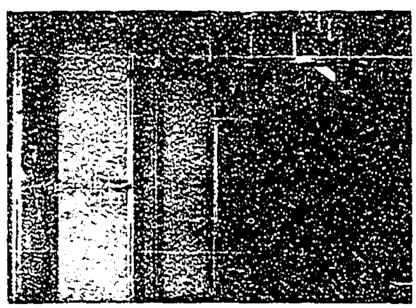
Today



A close-up view of the Austin (Minn.) replacement plant.



A walking beam system in the hog coolers of the new Austin (Minn.) plant.



Processing ovens to be used in the smoked meats operation in Austin.

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incandescent to fluorescent or mercury vapor lighting; installing a 100,000 gallon hot water recovery tank which stores and processes waste water so it can be later reused for clean-up and maintenance procedures; replacing electric driven compressors with back-pressure steam turbines on the ammonia compressors to allow waste steam heat to be reused for heating and processing, and encouraging employees to observe energy management techniques such as lighting and machinery shut-down and prompt reporting of water, steam and air leaks. All of these activities resulted in greatly reduced energy needs and a more efficient use of energy dollars.

The rapidly rising cost of energy presents a continuing challenge. The Company has been able to meet that challenge, however, with capital improvements which give prime consideration to energy efficiencies. The new Austin replacement plant is a fitting example. When fully operative, energy consumption will be 50 per cent below that currently required to produce the same amount of tonnage now handled in the existing Austin plant.

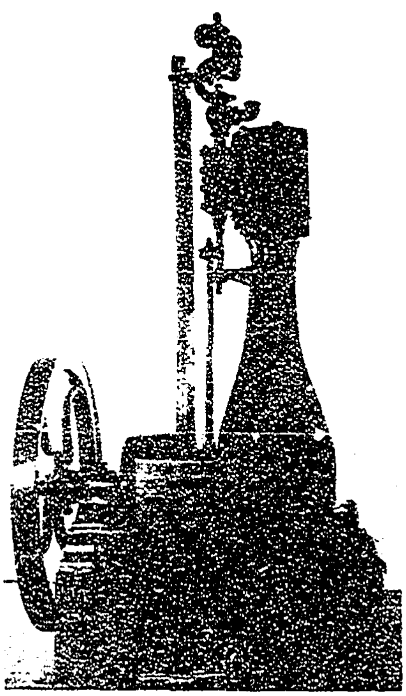
The Company's long-standing policy of voluntary cooperation with municipalities in matters of environmental control has also resulted in keeping local operations in compliance with government regulations while, at the same time, producing improvements in both water conservation and waste treatment.

In addition to the ongoing energy conservation effort, the Company began a balanced program of oil and gas investments in 1980 in order to offset rapidly escalating energy costs. Through October 31, 1981, approximately $7.5 million has been invested in a variety of oil and gas ventures, direct participation in drilling prospects, acreage programs and limited partnerships. Although it is too early to obtain an accurate measure of success, preliminary indications are encouraging.

Refinery and Feed Operations

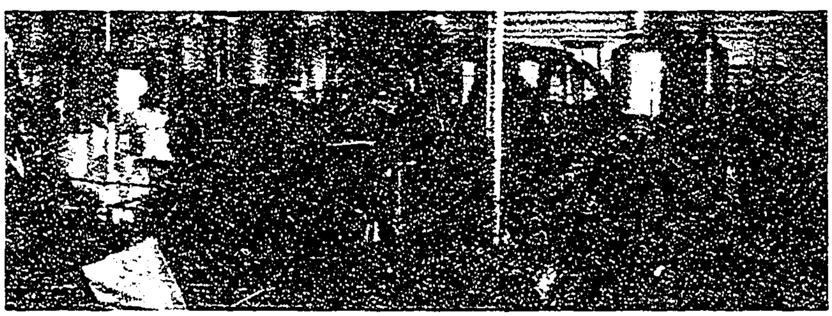
The scheduled opening this year of the new Austin replacement plant, which more than doubles existing refinery capabilities, is presenting the Operations Group with an opportunity to become a stronger, more recognizable marketer of specially-formulated customized oils and animal feed proteins. Products for the bakery and

1892



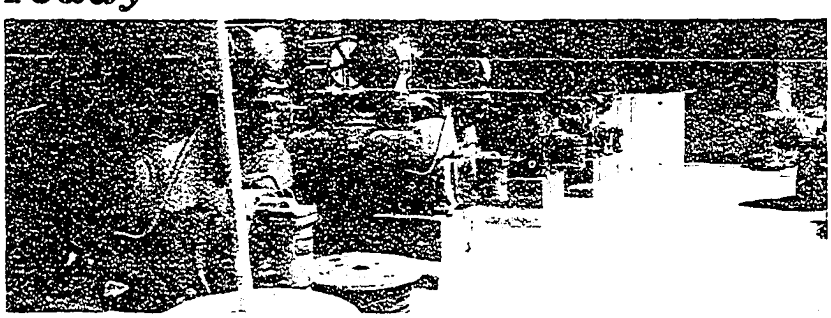
This engine did the work for Geo. A. Hormel in 1892

1930



Ammonia compressors one-half century ago were large and required considerably more area than the cooling units available for use today.

Today



Ammonia compressors in the new Austin (Minn.) plant, although much smaller in size than the 1930 units, offer many energy-efficient advantages.

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food service industries, sold under the *Hormel* brand name, include a variety of lard, shortening, salad and cooking oils and margarines.

The sales and marketing efforts of the Refineries Division are now directed to taking advantage of the increased volume that will soon be available. This unprecedented new marketing opportunity for refinery products is but one example of a significant internal expansion of the Company that is visualized as having substantial growth potential.

In recent years, special emphasis by the Feed Division has revolved foremost around the development of product lines that would lead to improvements in on-farm hog feeding programs. The principle behind the *Enpac* series, introduced in 1978, and the *Basepac* and *Surepac* lines which followed, was to help the farmer raise more feed-efficient, meat-type hogs.

Within the past year, the Feed Division extended this concept by adding dairy and poultry supplements to the *Basepac* line. In addition, a full line of minerals was introduced which provide an important balance with the vitamin requirements of producers seeking to improve their livestock production. The diversified line of feeds and minerals now available allows the Company to position itself to the farmer as a complete one-stop manufacturer and supplier.

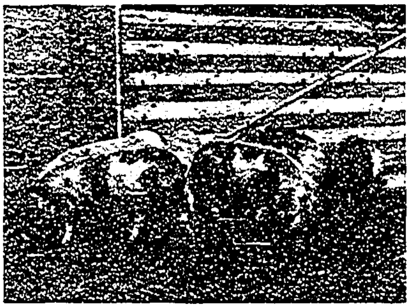
Livestock Procurement

The ability to obtain high-quality livestock, both hogs and cattle, in quantities sufficient to meet production schedules, has a critical impact on the day-to-day profitability of operations. During the past year, livestock buying departments of the Operations Group paid over $564 million in return for nearly five million head of live meat animals which then provided the basic ingredients for the Company's products.

Looking ahead, an ample supply of hogs is expected to be available throughout the current fiscal year and most likely into the following year. It is anticipated that an excellent feedgrain crop this past fall will encourage farmers to continue with their hog production at levels which will provide the industry with adequate numbers.

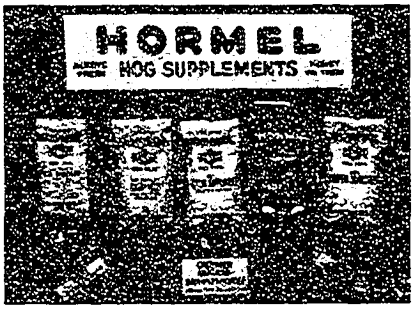
Processing beef supplies will also continue to be satisfactory and will approximate the same level of the past year. Surveys show that the number of slaughter cows will be adequate to meet the Company's needs in the year ahead.

1940



The raising of heavy, lard-type hogs was once a common practice in the industry

1962



Hormel hog supplements as they appeared 20 years ago.

Today

Pork producers have changed their ways of operation and the product produced

Today's modern Hormel feeds offer improvements in on-farm feeding programs.

Today

In 1981, Hormel paid over $564 million for nearly five million head of livestock.

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Meat Products

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Good planning and good execution best summarizes the business strategies which have contributed to the growth in recent years of the Meat Products Group. Although their overall performance during fiscal 1981 was adversely affected by an uncertain and sluggish economy and consumer caution in the marketplace, on balance the year was also notable for major steps taken to effectively strengthen and position it for future growth.

This was accomplished by building on a base of solid brand franchises; by a concerted and aggressive effort to increase penetration of important new markets; by attractive new packaging and carefully-targeted advertising and promotion programs, and through brand extensions, the development of an ongoing new products program specifically oriented to satisfying the growing variety and ever-changing consumer preferences. Added to this picture was a capital investments program developed around new or expanded production and distribution facilities and manufacturing efficiencies designed to add flexibility, reduced costs and increased productivity to plant operations.

In short, the Meat Products Group's performance during a year bracketed by both prob-

Group

lems and opportunities was significant in that the difficulties were overcome and the positive new options for further growth pursued. By the end of fiscal 1981, this Group had once again demonstrated its superior resources and expertise, leaving the impression it will continue to make steady progress whatever the vagaries of the economy or marketplace.

New Products

Fiscal 1981 was a particularly active year for new product introductions as today's shifting lifestyles led to the development of growing new markets and changes in other mature ones. Such wide-sweeping marketing factors as age and income, the growing number of smaller families and single-person households and the steady emergence of the working woman, contributed to an increasingly important impact on buying decisions. Consumers also showed a heightened awareness and concern for health and nutrition, demanding more quality food products offering fewer calories, and expressing a wide range of attitudes toward more leisure foods, ingredients, packaging, price and value.

The Meat Products Group's approach to this environment was to accept the challenge by emphasizing internally-generated diversification through the extension of existing product lines and related new product development.

Hormel 8 big franks and *Hormel* 4 big franks were introduced in early 1981 as today's product models satisfying the changes in taste and size desired by traditional hot dog lovers. Consumer research studies revealed a preference for a larger hot dog than the old standard and a richer, livelier flavor than in years past. The eight-to-the-pound size was developed because it was the one category of the wiener business still showing significant growth. The handy four-to-the-half-pound size has appeal to the growing small household segment of the U.S. population.

Research testing also showed that an appetite-appealing package design, combined with nutritional information, rated highest among consumers. Hormel responded with a colorful, mouth-watering food scene and a nutritional label showing the key nutrients, such as protein, fat, carbohydrates, minerals and vitamins and calories, all of which are helpful in the planning of balanced, healthful meals.

Helping provide effective support to the introductions of both products was an imaginative campaign which featured not only local newspapers and radio but creative use of outdoor advertising as well. The billboard program covered the major metropolitan markets of Houston, Texas, Atlanta, Ga., and Minneapolis, Minn., and conveyed the twin messages of a hefty new size and hearty new taste.

A companion product, *Hormel* 5 big franks, was also introduced in the past year. Produced at the Company's Seattle (Wash.) distribution plant and marketed solely in the northwest U.S., including Alaska, initial sales response to this new item is excellent.

Wranglers smoked franks, introduced in 1972, *Wranglers* smoked beef franks, added in 1978, and Pony Pack *Wranglers* smoked franks, marketed in early 1981, are other popular dinner-size hot dogs developed to be consistent with today's lifestyles. The newest entry, Pony Pack *Wranglers* smoked franks, is offered in the four-to-the-half-pound package and, like the *Hormel* 4 big franks, is appropriate for smaller households and light users.

The *Wranglers* product line, although having the same large-size characteristics of the *Hormel* 4, 5 and 8 big franks, is distinctive because of its smoky/spicy flavor, coarse texture and deep rich color.

Perma Fresh Line

Significant developments in the Perma Fresh luncheon meat line in 1981 included the further addition of dry sausage meats and the highly-

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successful introduction of the lower-fat, reduced-calorie *Light & Lean* products.

Hormel hard salami and *Hormel* pepperoni were two popular dry sausage varieties that first joined the Perma Fresh family in 1980. Following an unusually favorable reception, the line was expanded this past year to include *Hormel* genoa salami and *Hormel* beef salami. These thin-sliced products, marketed in 6-oz. sizes, provide consumers with the pleasure of enjoying the old-time flavor of *Hormel* deli meats in convenient sandwich-size slices. An added benefit to the Company is that these products can now be positioned to attract customers shopping at either the delicatessen or luncheon meat sections of their supermarket.

Recognizing the trend to greater consumer interest in diet and nutrition, the Meat Products Group developed *Light & Lean* luncheon meats. Included in the calorie-controlled line of products are smoked cooked ham, red peppered ham, black peppered ham and glazed ham, all in 4-oz. sizes; Canadian-style bacon, sold in a 6-oz. package, and cooked ham, available in both 4- and 8-ozs.

Careful regulation of ingredients and strict quality control assures that the *Light & Lean* line contains only 25 calories per slice, a better than 90 per cent leanness and a correspondingly high percentage of protein, appealing factors to diet-conscious Americans who don't wish to give up taste and flavor. The versatility of this new line is another attractive feature. They can be used for sandwiches, eaten alone as a snack item, or included as the meat portion of a calorie-regulated platter.

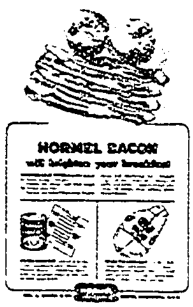
Complementing these product additions was the introduction during the past year of *Hormel* smoked breast of turkey to the original Perma Fresh luncheon meat line.

Late in the year, *Hormel* cheese and pepperoni became the newest specialty product to be developed by the Meat Products Group. Available as a 10-pound loaf and combining two very popular flavors, British cheddar cheese and Italian pepperoni, this product is sold principally to service delicatessens where it is fresh-sliced to correct thickness. Another major selling feature is its variety of uses with sandwiches, salads, hors d' oeuvres, snacks, fondue, omelets, appetizers, cooked foods and soups.

Dry Sausage Division

This momentum also carried over into the Company's Dry Sausage Division where the extension or improvement of several well-established product lines has continued to attract new consumers. In early 1981, national distribution of *Hormel* pepperoni in a 5-oz., exact-weight pack-

1938



1948

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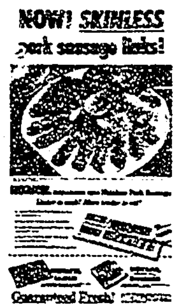
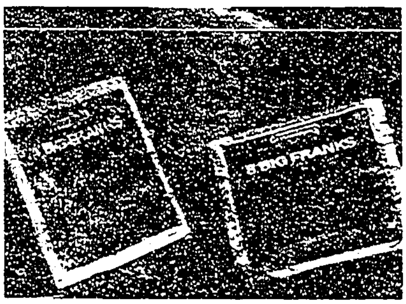


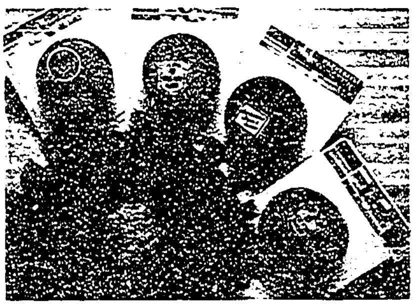
1963

The creative use of advertising has long contributed to the success of Hormel sales and marketing programs. These early-day advertisements effectively promoted Company products while demonstrating many varied and interesting food ideas.

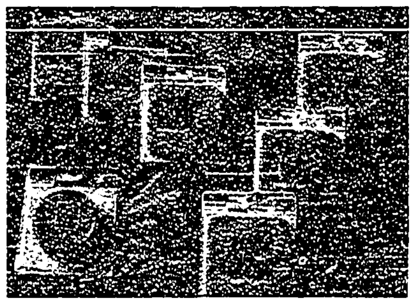
Today



Traditional hot dog lovers prefer the new taste and size of these three products.



Four recent additions to the Perma Fresh luncheon meat line.



The Company's calorie-controlled line of luncheon meats.

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age was begun. The traditional double-link form was maintained but the random, catch-weight package replaced, a feature which eliminated in-store scaling operations among retailers, thus offering added convenience in pricing.

In addition to the new 5-oz., exact-weight package, *Hormel* pepperoni is also marketed retail in a 3½-oz. presliced package and as a 6-oz. chunk item, both vacuum-sealed to insure retention of the product's authentic flavor.

Another line extension was the addition in 1981 of *Hormel* beef summer sausage to the Company's presliced deli meats line. A heavily-smoked, semi-dry product, it is neatly shingled, approximately 16 slices, in a convenient 4-oz. package.

The Dry Sausage Division demonstrated its ability to function as a broadline manufacturer/distributor with the extension of three items from the service deli into consumer self-service deli operations. *Burgermeister* thuringer, *Old Smokehouse* thuringer and *Lumberjack* beef summer sausage were introduced in new 12-oz., exact-weight chunks. The new easy-to-price feature of these products allows deli operators to do away with expensive and time-consuming chunking, wrapping and scaling services.

As fiscal 1981 began, the largest and most successful promotion in the history of *Hormel* deli meats was launched. Through the year, the accelerated campaign focused on national magazine, local newspaper and key market radio advertising.

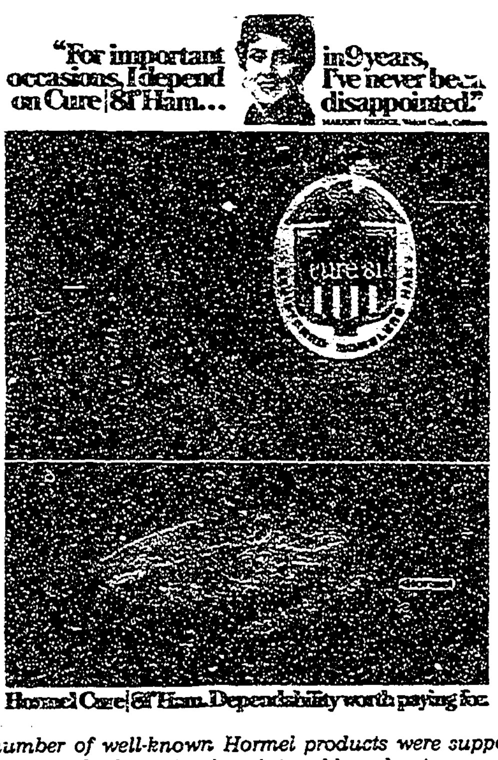
Full-color advertisements appeared in *Parade* and selected Sunday supplements, each insertion reaching 7.5 million homes in 34 markets. Appetizing four-color ads featured *Hormel* pepperoni, genoa salami and prosciutto in *Bon Appetit* and *Cuisine,* two of America's best read food magazines. Colorful national advertising was also included in the Company's eight-page "Good Times" recipe booklet which reached 43 million readers in the March issue of *Reader's Digest.* Meanwhile, black-and-white newspaper ads and hard-hitting radio commercials were targeted to those markets determined to offer the best deli sales opportunities.

Fresh Pork Merchandising

Although attracted to value-added branded products, where the opportunities to build a margin of leadership are clearer and the potential to establish brand identity is greater, the Meat Products Group is also committed to developing its fresh pork merchandising program.

Known as *Super Select* fresh seal pork, this innovative concept offers meat buyers, or retailers, a variety of fresh pork cuts backed by maximum value in quality, freshness, flavor and conve-

Today



A number of well-known Hormel products were supported with increased advertising in print and broadcast campaigns.

Many of the messages focused on the quality, flavor, convenience and versatility attributes of specific products.

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nience. The featured items in this product line are loins, spareribs, shoulder butts and boneless fresh hams. Each is produced from the finest pork available, specially-trimmed to exacting specifications, packed fresh in heavy multi-layered plastic bags and shipped in easy-to-handle crush-proof cartons.

Retailers remove the product from the atmosphere-controlled bags and boxes and then cut and wrap in the conventional manner into consumer-size, clear packages. Self-stick *Super Select* fresh seal pork labels are inserted into each box for their use.

The advantages of this program, afforded to both retailer and consumer, are numerous. For the retailer, much of the customary trimming necessary to produce the desired cuts is eliminated. A longer stay-fresh life is also possible because of the special care taken in packaging and shipping. Equally important, he is able to maintain quality, fresh inventories of only those pork cuts that sell best in his meat counter. Meanwhile, the consumer benefits by receiving the same maximum freshness qualities while having the added convenience of being able to select from a more readily-available variety of preferred pork cuts.

Super Select fresh seal pork is also merchandised to food service outlets where it is prepared as elegant menu or specialty items suited to family-style restaurants, schools and volume feeding institutions.

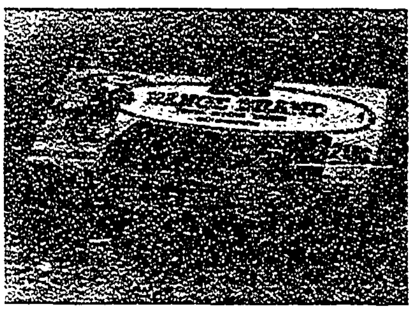
Food Service Division

The U.S. retail food business will continue as the dominant factor leading to the Company's growth, just as in the past. However, more and more Americans are not only dining out, they are also eating breakfast and lunch out and snacking away-from-home as well. In an effort to keep up with this trend, the Meat Products Group has been expanding in a major way.

In response to the increasing popularity of traditional pork products by food service operators and chefs, Hormel introduced a number of new products in 1981, all designed for the exclusive use of this trade. Included were fresh, center-cut pork chops, smoked pork chops and cooked or uncooked spare ribs.

In another area, the continuing surge in popularity of pizzerias and increased sales of frozen, ready-to-serve pizzas for home consumption, has prompted Hormel to look beyond its traditional pepperoni product for other toppings that might also attain built-in acceptance. Some of the different products under consideration are pork, beef and ham toppings which appear to have the best opportunity to earn strong favor among pizza users.

1957



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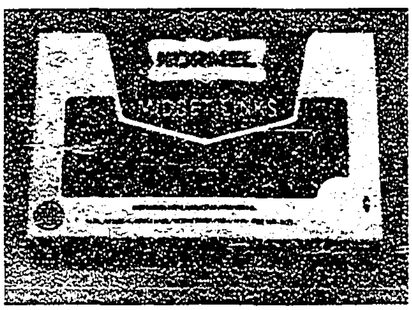
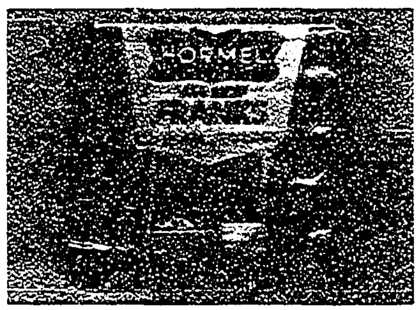
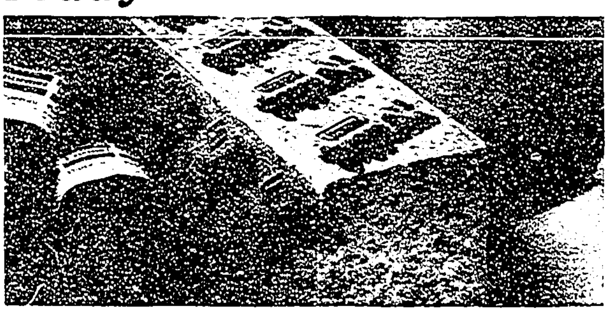


1961

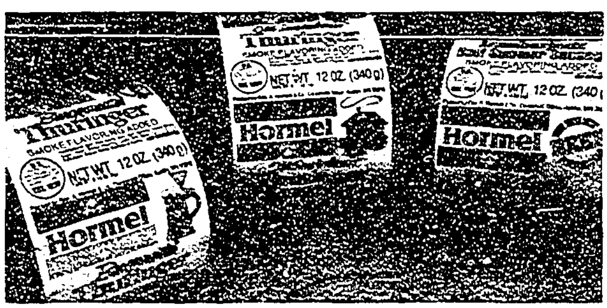


Over the years, improved package designs have projected the Company's strengths, particularly its quality image and the integrity of its products. New labels and new methods of packaging have helped Hormel to better serve the consumer.

Today



A new product, introduced in late 1981, is sold principally to service delicatessens.



Three popular dry sausage products were introduced in new 12-oz., exact-weight chunks.

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The Company's food service business enjoyed a steady growth in volume during fiscal 1981 with strong support from its traditional line of refrigerated meat products. Boneless hams, cooked and canned hams, sliced bacon, wieners, smoked meats and dry sausage/deli products paved the way for the improved sales results which were reported at year-end. Promising new additions include the *Fast 'n Easy* line of precooked bacon and precooked pork sausage, introduced to both food service and retail markets in late 1980, *Hormel* bacon bits and the complete *Hormel* patties line.

Capital Investments

Planning for the future also includes upgrading and expanding of facilities. Overall capital spending by the Meat Products Group during fiscal 1981 represented a significant allocation of resources despite the uncertain economy.

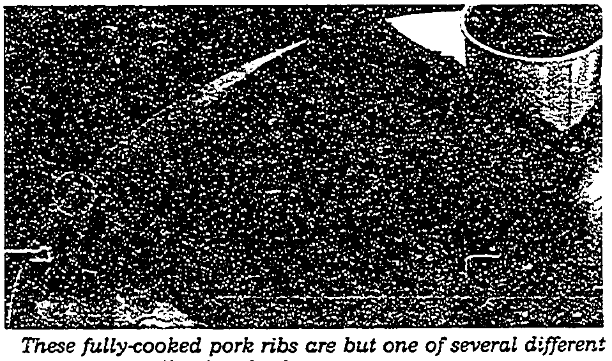
The 100,000 square foot dry sausage addition to the Ottumwa (Iowa) hog slaughtering and food processing plant was completed in late summer. *Di Lusso, Gran Valore* and *San Remo* genoa salamis and *Hormel* prosciutti hams are now produced in this modern facility which was first opened just five years ago. In the smoked meats area, additional coolers and processing ovens provide a capability to more than double the production capacity of *Cure 81* hams and sliced bacon.

In Hayward, Calif., construction was started at mid-year on an 18,875 square foot facility which will improve distribution efficiency in the northern California area. The new plant will have 14,500 square feet of warehouse and freezer space and another 4,325 square feet of office space for administrative and sales people.

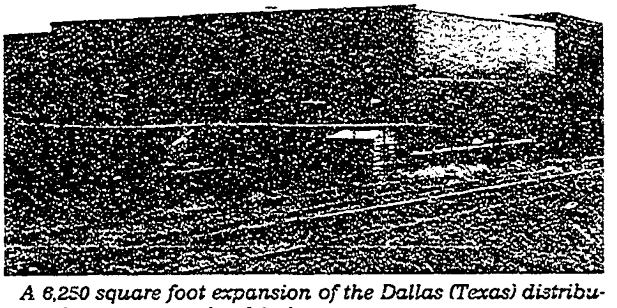
In still other capital additions, a 6,250 square foot expansion of the Dallas (Texas) distribution plant was completed shortly after the end of the fiscal year. The new addition provides for greatly increased freezer space. Another 2,000 square foot portion of the former building was renovated and converted into improved freezer and fresh pork cooler areas.

In Los Angeles, Calif., about one-third of the original, obsolete manufacturing plant area was removed and another 15,600 square feet remodeled to provide for modern warehousing and distribution facilities and offices for meat products, grocery products and industrial products sales and administrative staffs. Physical expansions at the New Orleans (La.) and Charlotte (N.C.) distribution plants and renovation of facilities at the San Antonio (Texas) distribution plant provided for grocery products sales offices at each location. The Montgomery (Ala.) distribution plant, for many years a Company leased facility, was purchased during the year.

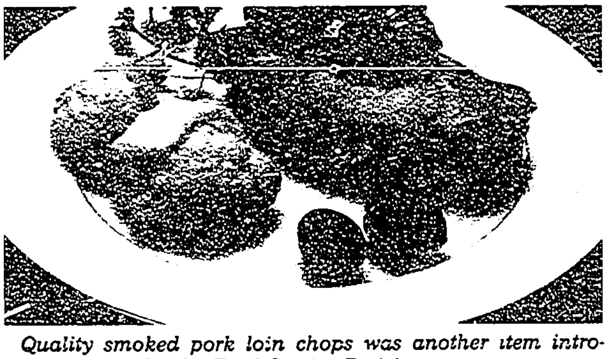
Today



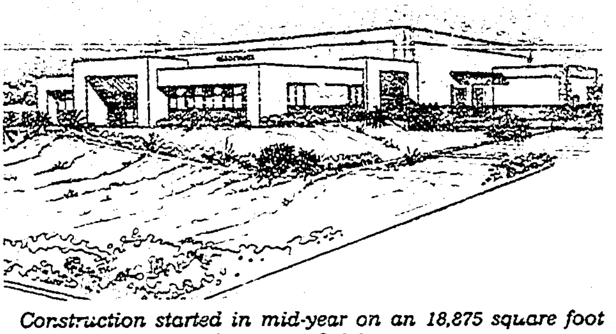
These fully-cooked pork ribs are but one of several different pork products offered to food service operators.



A 6,250 square foot expansion of the Dallas (Texas) distribution plant was completed in late 1981.



Quality smoked pork loin chops was another item introduced in 1981 by the Food Service Division.



Construction started in mid-year on an 18,875 square foot distribution plant in Hayward, Calif.

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Prepared Foods

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Group

The value of leadership brands in a difficult economic environment was clearly demonstrated by the Prepared Foods Group during fiscal 1981.

Four established products which are sales leaders in their respective categories — *SPAM* luncheon meat, *Hormel* chili, *Dinty Moore* beef stew and *Mary Kitchen* roast beef hash and *Mary Kitchen* corned beef hash — were able to maintain strong market positions despite a year characterized by heightened competitive pressures. *Black Label* ham, another well-established Company product, joined two newer brands — *Hormel* bacon bits and the *Hormel* patties line — in registering solid increases in sales.

Throughout the year, the Prepared Foods Group, consisting of the Grocery Products Division and the Industrial Products Division, introduced new marketing programs, implemented fresh advertising ideas and improved packaging and, in several areas, enhanced the efficiency and capacity of its production facilities.

In short, whether faced with an ever-changing marketplace, or confronted with an economy buffeted by persistent inflation and high interest rates, or when dealing with periods of constrained consumer buying, the Prepared Foods Group in 1981 and, historically, has been able to build a uniquely strong foundation on which to grow The solid character of the foundation has been achieved by broadening production capacity, developing new markets and pressing forward with a carefully-planned new products program.

Through adherence to these strategies and the strengths built over a period of many years, the growth opportunities today are brighter than at any previous time in the Company's 90-year history. Building strength on strength will continue as the overriding strategy guiding the Prepared Foods Group in this decade.

Three Golden Oldies

Fifty-six years ago, in 1926, the introduction by Hormel of America's first canned ham was universally hailed as the beginning of a new era in the marketing of meat products. This "flagship" of Hormel canned hams, known today as the *Black Label* ham, received special attention during the past year not only with significant improvements in the package design but in the product itself which was expanded to offer consumers with a greater variety of sizes and shapes.

Highlighting the package re-design is colorful photography of a *Black Label* ham in its best eye-appealing, mouth-watering form. It visually illustrates the improved quality and uniformity features now possible because of an innovative trimming and shaping process that produces leaner, more tender hams.

Greater emphasis is also given to the *Hormel* signature, *Black Label* trademark and to the "America's First Name for Ham" tag-line which, together, reinforces the Company's preeminence in the important canned ham field. As an added benefit, the interests of consumers are further served with the reproduction of cooking suggestions which describe the ease of preparation and serving ideas that are helpful to homemakers planning nutritionally-balanced meals.

One of the realities of the food industry has been the continuing basic shift to smaller families and single-person households. Hormel is responding to this trend by extending its *Black Label* ham line, adding two new sizes (1- and 2-lb.) in the traditional shelf-stable pear shape can and two sizes (1½- and 3-lb.) in the *D-shaped* container.

Scheduled for introduction in early 1982, these line additions, and the 1½-, 3-, 4-, 5- and 8-lb. sizes which preceded them, now provide consumers with an ever wider and up-to-date selection from which to choose. A companion product, *Hormel* spiced ham, has long been available to deli operators in a *D-shaped,* 5-lb. can. This distinctively-different product has since been "down-sized" and will soon be available as a 1½-lb. retail item. This now provides consumers with the added convenience of being able to obtain this unique ham product either at the delicatessen counter or from supermarket shelves. Still another benefit is that, regardless of the family size or occasion, Hormel has a quality ham product, bearing proven, well-established brand names, that truly fulfill the changing consumer needs.

Two other "golden oldies," *SPAM* luncheon meat and *Hormel* chili, were able to maintain their respective No.-1 sales and market shares despite growing price sensitivity among consumers.

SPAM luncheon meat, introduced in 1937, is the famous original canned luncheon meat which, today, outsells all its competitors combined. In a strategy aimed at building the franchise for years to come, the marketing efforts behind *SPAM* luncheon meat were directed to the first-time user, those consumers, young and old, who have never before tried the product. The message, "It's love at first bite," began early last year with two 30-second commercials on daytime television, a new array of full-color print advertisements and eye-catching stack cards and tear-off recipes that offered six new tempting and

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tasteful ways to "fall in love," everything from *SPAM* "Picadilly" to *SPAM* "Polynesian."

In a concerted effort to convince non-users to try *SPAM* luncheon meat, a complete satisfaction, or your money back, guarantee was also offered.

Another fresh and well-received advertising concept focuses on strengthening the Company's already No.-1 position in the chili market. "Homemade or Hormel? You'll Have a Hard Time Telling," is the theme behind a comprehensive television, newspaper and magazine campaign which stresses the many quality features of *Hormel* chili. The star performers are 30-second "chuckwagon" and "county fair" commercials which emphasize the product's quality ingredients and hearty and delicious flavor.

Other Marketing Programs

Two other long-time "front runners," *Dinty Moore* beef stew and *Mary Kitchen* roast beef hash and *Mary Kitchen* corned beef hash, were also supported this past year with increased advertising in broadcast and print campaigns.

Using extensive market-by-market radio coverage throughout the country, more than 450 stations in 150 different markets, the special *Dinty Moore* advertising program revolved around Gerry Spiess who, in 1979, conquered the North Atlantic alone in a 10-foot sailboat. . .with *Dinty Moore* beef stew as one of his mainstay meals throughout the trip. This past year, Spiess embarked on a voyage across the Pacific Ocean, from California to Australia, completing this second challenging trip in late October. Throughout the 7,800-mile, five-month trip, specially-tailored radio commercials described his incredible exploits and the reasons he selected *Dinty Moore* beef stew.

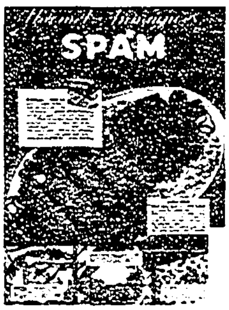
It was the largest promotion of its type in *Dinty Moore* history and, in the end, this best-selling brand attained all-time new levels in sales and market share.

Other American favorites, *Mary Kitchen* roast beef hash and *Mary Kitchen* corned beef hash, also top-selling brands in their category, received strong national advertising in such publications as *Family Circle, Good Housekeeping, McCall's, Women's Day* and *Parents.* Color advertisements featured new variations of contemporary recipes, including quiche', eggs benedict, reubens and bacon-burgers.

New Product Introductions

In a move designed to build sales volume, the Prepared Foods Group, in fiscal 1981, began test market or national distribution of new products or line extensions which were consistent with to-

1938



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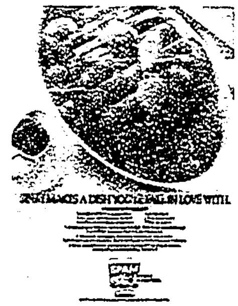

SPAM® luncheon meat outsells all its competitors combined The unmatched position of this product is due, in large part, to the consistently strong advertising and marketing support it has received over the years

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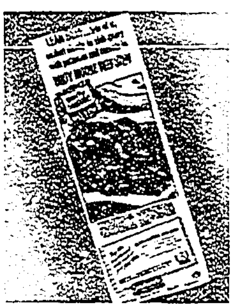
1950



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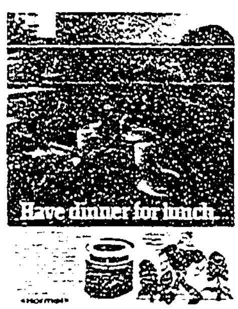

Today

The advertising strategies behind Dinty Moore® beef stew have changed to keep pace with trends in the marketplace. An extensive radio promotion in 1981 helped Dinty Moore® beef stew to attain all-time new levels in sales and market share

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day's lifestyle or shifts in the marketplace.

One such example was the introduction of *Hormel* green chili sauce with pork and *Hormel* green chili sauce with beans and pork. These two 15-oz. products, introduced in mid-year, have been precisely-positioned to attract consumers in selected markets where a proven preference for Mexican-style foods exists. To encourage their acceptability, serving suggestions have been developed to demonstrate the varied ways this product can be combined with other foods to provide innovative meals.

Dinty Moore brunswick stew and *Hormel* German potato salad are the latest additions to the Company's *Short Orders* individual canned servings line. This raises to 29 the number of convenient, ready-to-serve hot foods now marketed nationally. The *Short Orders* line of products, marketed in 7½-oz. cans, meet identified consumer needs and desires for menu variety and thrifty serving sizes.

A direct result of the popularity of many of these single-portion items was the introduction this past year of a new *Hearty Helpings* product line. Three of the Company's hottest-selling 7½-oz. products — *Hormel* noodles and chicken, *Hormel* scalloped potatoes and ham and *Hormel* noodles and beef — and one all-new item — *Hormel* vegies and ham — were "upsized" and placed into limited test markets in a 15-oz. can. As contrasted to the *Short Orders* line, the *Hearty Helpings* products are for those households where more than one serving is desired. Local newspaper advertisements introduce the new line as man-sized main courses that can be prepared in a saucepan or baked in a casserole.

Additional Market Entries

As announced last year, the Company proceeded with expanding its ham patties line, adding three new items in 1981. *Hormel* ham and cheese patties and *Hormel* sausage patties, either hot or mild, joined the original member of the family, *Hormel* ham patties, in providing consumers with a greater variety of alternatives to traditional bacon, sausage and canned meats.

Since its inception in 1976, the Company's ham patties line has steadily gained new distribution, sales growth and consumer acceptance. Today, it has achieved nearly 50 per cent market share in its product category. Advertisements used to announce the new flavors are supported by in-store shelf strips and recipe pads which have helped to sell the new additions at point-of-purchase.

Sold at retail in a 12-oz. can, the entire line, with the exception of *Hormel* sausage patties/hot, is also available in a 36-oz. size, consisting of 18 two-oz. patties.

Today

New package design.

New Mexican-style products.

Introduced in fiscal 1981.

Expanded ham patties line.

The Company's growing line of frozen burritos.

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Current and planned retail line extensions of frozen foods is presenting the Prepared Foods Group with still another excellent opportunity for future sales growth. *Hormel* tamales, introduced in mid-year, will be followed in early 1982 with three additional items — *Hormel* green chili burritos, *Hormel* beef enchiladas and *Hormel* cheese enchiladas.

Hormel first entered the frozen foods business seven years ago and, since that time, has enjoyed steady improvement in sales and overall market share. The year just concluded was a particularly good one with total sales reaching a new record high.

The Company's growing line of frozen foods also includes chicken and rice burritos, beef burritos, cheese burritos, hot chili burritos, corn dogs, *Tater Dogs* batter-wrapped wieners, lasagna and breaded beef, veal and pork steaks, all of which are marketed under the *Hormel* brand name.

Other Marketing Developments

Hormel bacon bits, introduced in limited test markets just two years ago, completed its second full year of national distribution. With a whopping 144 per cent sales increase in 1981, this new Hormel product is rapidly becoming the best-selling brand in the real bacon bits category.

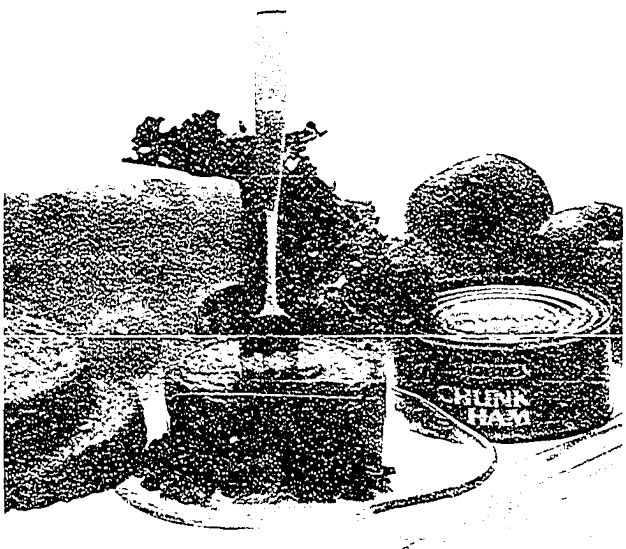
As a follow-up to the growing consumer acceptance received in retail markets, the Company unveiled new 25-oz. can and 10-lb. bag additions this past year for distribution to high volume users in the food service industry.

New labels now carry the name change given to the *Hormel* line of chunk ham, chunk turkey and chunk chicken. Increased emphasis is being placed on the *Hormel* brand name, which is generally well-known in the marketplace for its strength and integrity, and the word "chunk" which more aptly describes each of the three meaty main dishes sold for use in salads, sandwiches, casseroles and snacks.

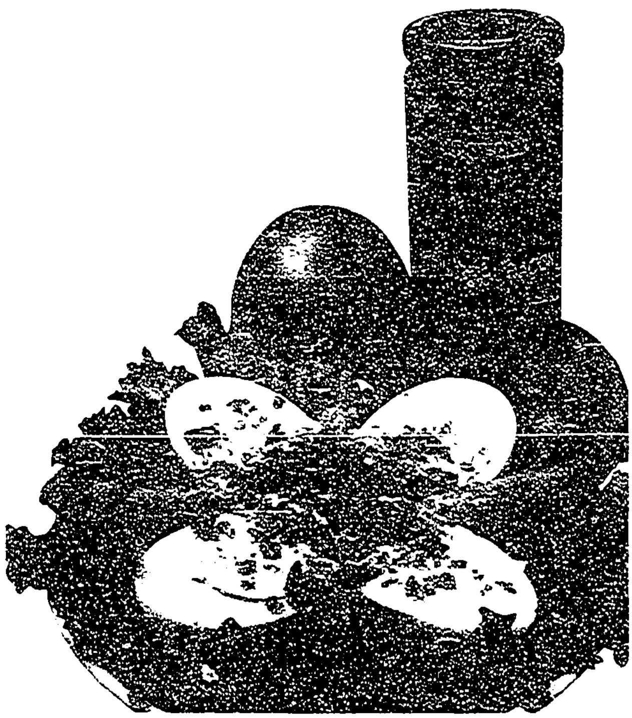
Plant Additions

Construction ends early this year on a 31,000 square foot addition to the Beloit (Wis.) canning plant which provides for new freezer, dry storage and manufacturing areas. This is the second major expansion in less than three years and extends to over 330,000 square feet the manufacturing and warehousing capabilities available for the canning of most all Hormel grocery products items.

At the Atlanta (Ga.) distribution plant, the installation of new and improved high-speed canning lines in 1981 and the investment in new packaging and casing equipment one year earlier will further help enhance product uniformity and productivity. *Dinty Moore* beef stew, *Hormel*



New label design for Hormel line of chunk products.



Another successful product introduction

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chili, *Mary Kitchen* corned beef hash and *Hormel* vienna sausage are the canned meat items benefiting from this modernization effort.

Because the quality of each product is directly dependent on the facility in which it is produced, it has been a long-held Company belief that no plant can afford to be outdated with respect to its equipment or manufacturing processes. These and many other capital funding projects also provide assurance that adequate capacity will be available to meet the ever-growing needs of the marketplace.

Industrial Products Division

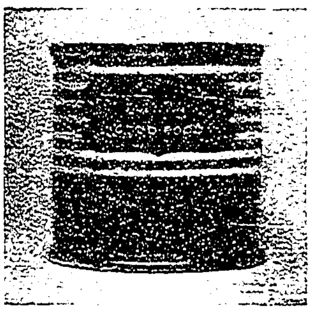
The collective picture of the Industrial Products Division is vastly different from when it was first formed nearly 15 years ago. This production and marketing segment of the Prepared Foods Group has consistently increased development and distribution of specialized types of food and non-food products to the extent that it has earned recognition as an important and still growing part of the Company's total business.

To meet the anticipated further growth in demand for brand name private label gelatin desserts and puddings, pre-sweetened soft drink mixes and hot cocoa mixes, additional equipment lines installed this past year at facilities in Austin, Minn.. increased by 20 per cent the production capacity for these food products. A major 20,000 square foot addition planned for the current year will provide expanded warehousing area and increased output capabilities, enabling the Industrial Products Division to then concentrate its energies on newer identified market opportunities.

The Company's 100,000 square foot Davenport (Iowa) bulk gelatin manufacturing plant is now in its second full year of operation. The move last year of hydrolized protein and bulk gelatin facilities from the existing Austin plant to Davenport, coupled with a steady rise in production, has led to full utilization of this plant's initial projected capacities. Special emphasis and studies are now directed to raising production limits in 1982 and installing additional equipment.

Also in 1982, the Industrial Products Division will proceed with the introduction of two exciting new items for the cosmetics industry where gelatin is used in the manufacture of lipstick, creams and hair waving preparations. Hydrolized keratin protein, as an ingredient in hair care products, and a natural soluble collagen, formulated for use in skin care products, should move during the year from pilot plant tests to full-scale commercial production. The development of these items and the future potential for their application is indicative of the high level of technical excellence and product innovation associated with the Industrial Products Division.

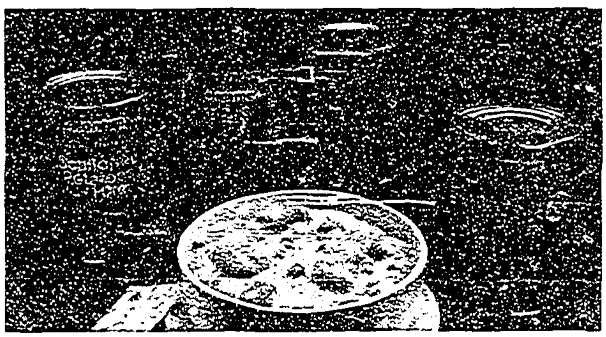
1946



1946

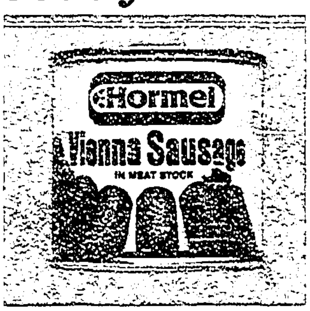
Two canned meat products as they appeared over 35 years ago.

Today



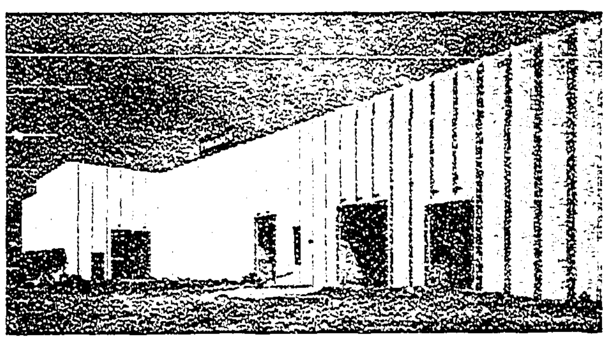
This product line was introduced last year.

Today



Today

These same products in markedly improved label designs.



A 31,000 square foot addition well underway in Beloit, Wis.

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Officers and Directors

R. L. Knowlton, Austin
President
Chief Executive Officer
Director since September, 1974

I. J. Holton, Austin
Chairman of the
Executive Committee
Director since February, 1961

Raymond J. Asp, Austin
Executive Vice President
Director since August, 1969

Lee D. Housewright, Jr., Austin
Executive Vice President
Director since August, 1969

William R. Hunter, Austin
Group Vice President
Director since July, 1979

E. C. Alsaker, Austin
Senior Vice President
& Treasurer
Director since November, 1969

Frank M. Brown, Austin
Vice President
Engineering
Elected effective November 1, 1981

Bruce Corey, Austin
Vice President
Planning & Engineering
Retired October 31, 1981

John R. Furman, Austin
Vice President
Dry Sausage Division

Robert M. Gill, Austin
Vice President
Personnel & Industrial Relations
Director since August, 1970

Stanley E. Kerber, Austin
Vice President
Route Car Sales and
Distribution Plant Division

Clayton T. Kingston, Austin
Vice President
Pork Operations
Retired May 30, 1981

Robert F. Potach, Austin
Vice President & Controller
Director since October, 1970

James N. Rieth, Austin
Vice President
Strategic Planning & Development
Elected January 27, 1981

James A. Silbaugh, Austin
Vice President
Grocery Products Division

Donald S. Sorenson, Austin
Vice President
Beef Operations

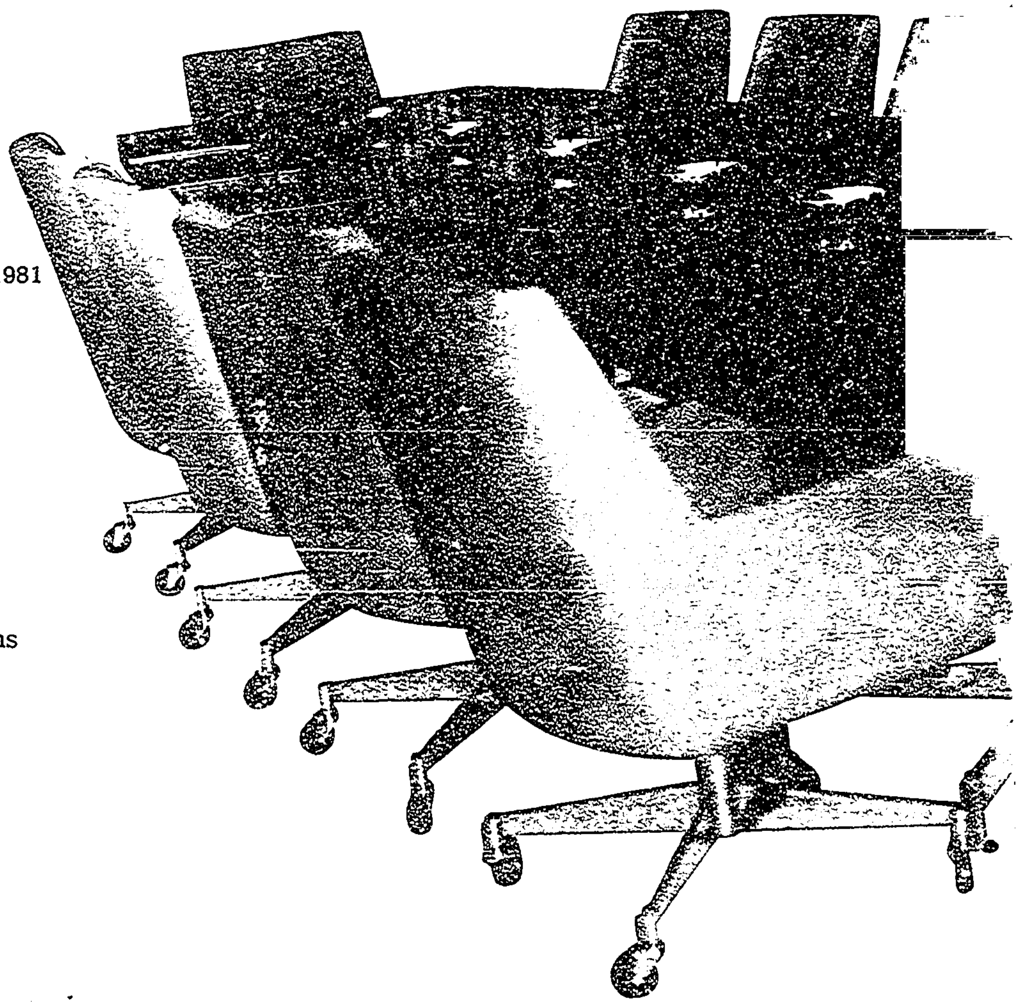
Charles D. Nyberg, Austin
General Counsel
& Secretary

Richard W. Schlange, Austin
Assistant Controller
Accounting

Walter B. Stevens, Austin
Assistant Treasurer
Finance

Robert J. Thatcher, Austin
Assistant Treasurer
Taxes

Clarence G. Adamy,
Alexandria, Va.
Food Industry Consultant
Former President
National Association of
Food Chains
Director since January, 1977



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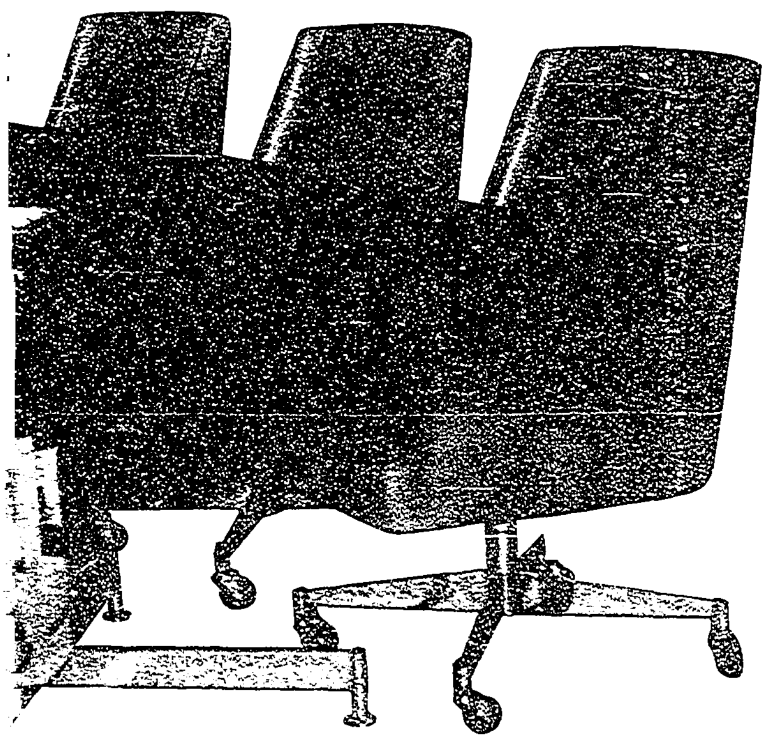
Sherwood O. Berg,
Brookings, S.D.
President
South Dakota State University
Director June, 1969-June, 1973
Re-elected November 29, 1976

Donald R. Grangaard,
Minneapolis, Minn.
Chairman of the Board
First Bank System, Inc.
Director since July, 1974

Geri M. Joseph,
Minneapolis, Minn.
Former U.S. Ambassador to
The Netherlands
Director August, 1974-July, 1978
Re-elected April 27, 1981

Ray V. Rose,
Colorado Springs, Colo.
Former Supermarket
Chief Executive
Elected October 26, 1981



Committees of the Board

Personnel Committee
R. L. Knowlton,
chairman
Donald R. Grangaard

The Personnel Committee has two members: one an employee director, the other a non-employee director. This Committee has the authority to review and to make recommendations to the Board of Directors and to the Chief Executive Officer on matters relating to employee compensation, retirement, medical and life insurance benefits and executive development planning.

Contributions Committee
I. J. Holton,
chairman
Raymond J. Asp
William R. Hunter

The Contributions Committee has three members, all of whom are employee directors. This Committee is involved in reviewing charitable contributions, many of which are made to activities and organizations in communities in which the Company operates. It evaluates the needs of various organizations and recommends the extent to which corporate financial support should be made available to worthy educational, humanitarian services and civic project endeavors.

Audit Committee
Donald R. Grangaard,
chairman
Clarence G. Adamy
Sherwood O. Berg

The Audit Committee, composed entirely of non-employee directors, is responsible for recommending the independent certified public accountants to conduct the annual audit of the Company's financial statements. The Committee reviews activities and matters pertaining to the audit, including systems of internal control and accounting policies and procedures; approves services provided by the independent auditors and directs and supervises investigations into matters within the scope of its duties.

Executive Committee
I. J. Holton,
chairman
R. L. Knowlton
Raymond J. Asp
Lee D. Housewright, Jr.
William R. Hunter
E. C. Alsaker
Robert M. Gill
Robert M. Potach

The Executive Committee has eight members, all of whom are employee directors. This Committee has most of the powers of the Board of Directors and can act when the Board is not in session.

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Corporate Profile

Geo. A. Hormel & Company is a federally-inspected food processor which slaughters livestock for processing into meat and meat products for sale at the wholesale trade level.

The principal products of the Company are meat and meat products — boneless hams, sausage items, wieners, sliced bacon, luncheon meats, stews, chilis, hash and meat spreads — which are sold fresh, frozen, cured, smoked, cooked or canned.

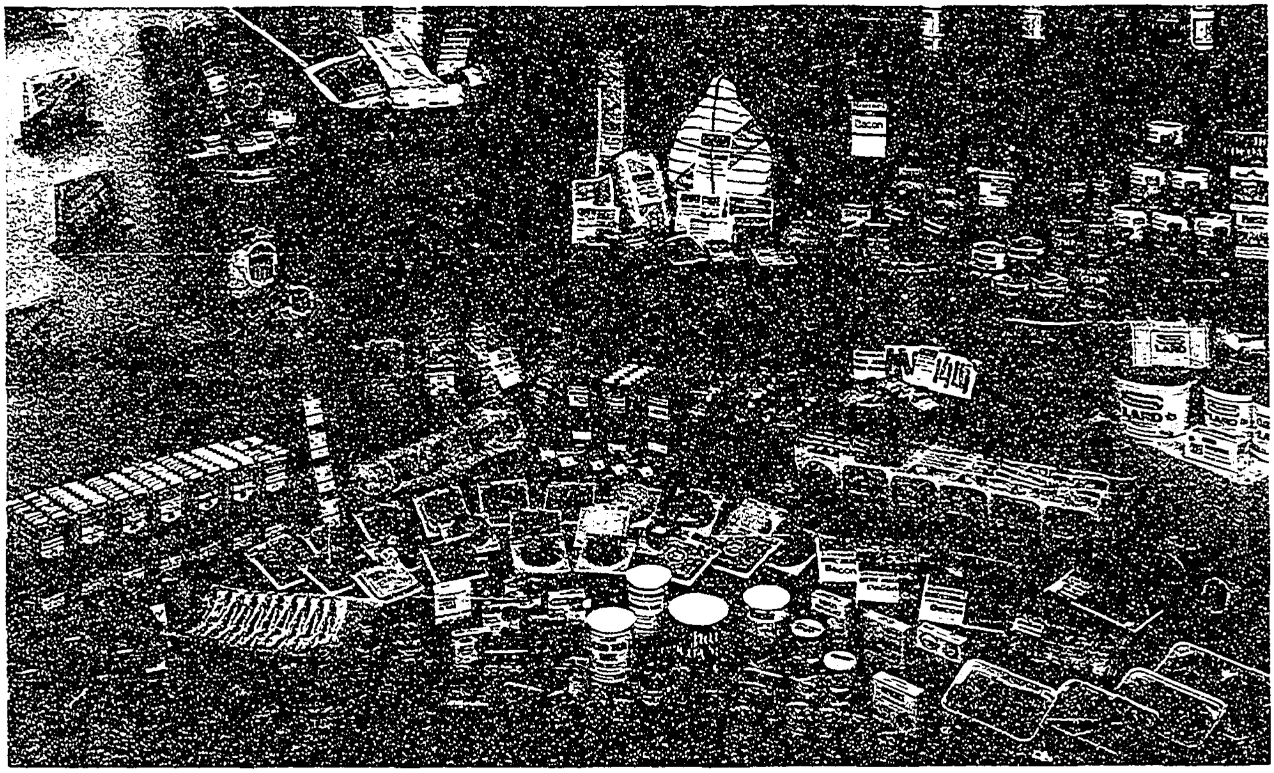
The Company's products are sold in all 50 states by salesmen operating in assigned territories coordinated from district sales offices located in most of the larger cities and by brokers and distributors who handle carload lot sales.

Hormel operates 17 plants for slaughtering and/or processing and has 13 distribution plants located along the West Coast, South Atlantic Coast, Gulf Coast and Hawaii. Hormel also operates in international areas, including the Philippines, Japan, Dominican Republic and in various European countries through Hormel International, a wholly-owned subsidiary.

There are numerous trademarks which are important to the Company's business. The more significant, commonly-known trademarks are *Hormel, SPAM, Dinty Moore, Mary Kitchen, Little Sizzlers, Cure 81, Black Label, Di Lusso, Curemaster* and *Wranglers.* Product brand names italicized in this 1981 Annual Report to Shareholders are trademarks of Geo. A. Hormel & Company or its subsidiaries.

Hormel employs nearly 7,800 people and has approximately 5,100 stockholders.

Today



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About Your Stock

Geo. A. Hormel & Company common stock is listed on the American Stock Exchange. The stock is quoted as "Horml" in the stock table listings which appear in daily newspapers. The abbreviated trading symbol is "HRL."

Auditors

Ernst & Whinney
1400 Pillsbury Center
Minneapolis, Minnesota 55402

Transfer Agent

The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Communications concerning change in registered ownership and lost or stolen certificates should be directed to the Transfer Agent shown above.

Registrar

Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Illinois 60690

Stockholder Inquiries

Communications concerning dividends and change of address should be directed to Geo. A. Hormel & Company, % Corporate Secretary, P.O. Box 800, Austin, Minnesota 55912.

Form 10-K Annual Report

Stockholders of record and/or beneficial owners of the Company's common stock may obtain, without charge, a copy of Geo. A. Hormel & Company's most recent annual report on Form 10-K filed with the Securities and Exchange Commission. This written request should be directed to Geo. A. Hormel & Company, % Corporate Secretary, P.O. Box 800, Austin, Minnesota 55912.

Notice of Annual Meeting

The Annual Meeting of the Company's stockholders will be held on Tuesday, January 26, 1982, in the Austin High School Auditorium. The meeting will convene at 8 p.m.

COMMON STOCK DATA

	1981		1980	
Fiscal Year	Cash Dividends Declared	Market Price Range	Cash Dividends Declared	Market Price Range
First Quarter	$ 23	$ 14-19⅛	$ 21	$16½-18 15/32
Second Quarter	23	15⅛-17½	21	14⅛-18 19/32
Third Quarter	23	15⅝-19½	21	13 [illegible]/8-16¼
Fourth Quarter	23	14¼-19⅛	21	15 [illegible]-20

The approximate number of shareholders at October 31, 1981 was 5 077

FINANCIAL SECTION

ACCOUNTANTS' REPORT

To the Stockholders and
Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the statements of financial position of Geo. A. Hormel & Company as of October 31, 1981 and October 25, 1980, and the related statements of earnings, changes in stockholders' investment and changes in financial position for each of the three years in the period ended October 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Geo. A. Hormel & Company at October 31, 1981 and October 25, 1980, and the results of their operations and changes in their financial position for each of the three years in the period ended October 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis except for the change in the method of accounting for interest costs, with which we concur, as described in Note F to the financial statements.

Ernst & Whinney

Minneapolis, Minnesota
November 23, 1981

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SELECTED FINANCIAL DATA

(Thousands of Dollars)

OPERATIONS	1981*	1980	1979
Net Sales	$1,433,966	$1,321,966	$1,414,016
Net Earnings	27,283	32,758	29,970
Percent of Sales	1.90%	2.48%	2.12%
Wage Costs	270,522	254,303	233,878
Total Taxes (excluding Payroll Tax)	18,796	23,078	27,635
Depreciation	13,887	13,452	12,102
FINANCIAL POSITION			
Working Capital	$ 59,440	$ 69,843	$ 84,646
Properties (net)	228,813	160,825	119,213
Total Assets	425,065	355,853	323,149
Long-Term Debt — Less Current Maturities	65,834	28,495	28,749
Stockholders' Investment	226,741	208,296	183,608
PER SHARE OF COMMON STOCK			
Net Earnings	$ 2.84	$ 3.41	$ 3.12
Dividends	.92	.84	.74
Stockholders' Investment	23.60	21.68	19.11

*53 Weeks

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GEO. A. HORMEL & COMPANY

1978	1977	1976*	1975	1974	1973	1972
$1,244,865	$1,106,274	$1,094,832	$995,593	$943,163	$825,671	$719,755
19,471	21,499	14,352	12,863	16,916	7,191	7,605
1.56%	1.94%	1.31%	1.29%	1.79%	.87%	1.06%
201,633	192,590	180,236	167,951	151,920	129,823	129,633
17,997	22,857	13,844	12,703	17,679	8,525	9,258
11,551	11,312	10,697	9,140	7,667	7,125	6,417
$ 77,523	$ 79,253	$ 63,957	$ 64,350	$ 48,659	$ 34,256	$ 39,275
103,992	99,921	97,465	85,398	74,392	67,481	60,178
279,495	258,283	228,585	224,488	193,696	179,950	149,468
28,993	28,226	27,703	25,920	8,060	-0-	-0-
160,747	147,808	131,689	122,141	113,697	100,872	97,617
$ 2.03	$ 2.24	$ 1.49	$ 1.34	$ 1.76	$ .75	$ .79
.68	.56	.50	.46	.42	.41	.39
16.73	15.23	13.71	12.71	11.84	10.50	10.16

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STATEMENTS OF FINANCIAL POSITION

GEO. A. HORMEL & COMPANY

	October 31, 1981	October 25, 1980
	(Thousands of Dollars)	
ASSETS		
CURRENT ASSETS		
Cash	$ 7,697	$ 7,884
Short-term marketable securities — at cost which approximates market	12,925	9,764
Accounts receivable	75,880	73,389
Inventories of products, livestock, packages and supplies — Note B	89,690	96,018
Prepaid expenses	771	1,850
TOTAL CURRENT ASSETS	186,963	188,905
INVESTMENTS AND OTHER ASSETS	9,289	5,550
DEFERRED INCOME TAXES — Note E		573
PROPERTY, PLANT AND EQUIPMENT		
Land	3,648	3,665
Buildings	76,983	73,036
Equipment	169,163	148,275
Construction in progress — Notes F and H	99,876	45,630
	349,670	270,606
Less allowance for depreciation	(120,857)	(109,781)
	228,813	160,825
	$ 425,065	$ 355,853

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LIABILITIES AND STOCKHOLDERS' INVESTMENT	October 31, 1981	October 25, 1980
	(Thousands of Dollars)	
CURRENT LIABILITIES		
Notes payable	$ 369	$ 626
Accounts payable	59,059	57,198
Employee compensation	55,373	51,207
Taxes, other than income taxes	6,931	5,550
Dividend payable	2,210	2,018
Federal income taxes	3,314	2,208
Current maturities of long-term debt	267	255
TOTAL CURRENT LIABILITIES	127,523	119,062
LONG-TERM DEBT — less current maturities — Note C	65,834	28,495
DEFERRED INCOME TAXES — Note E	4,967	
STOCKHOLDERS' INVESTMENT		
Common Stock, par value $.9375 a share — authorized 12,000,000 shares, issued — 9,606,516 shares	9,006	9,006
Additional paid-in capital	2,761	2,761
Earnings reinvested in business	214,974	196,529
	226,741	208,296
	$ 425,065	$ 355,853

See notes to financial statements

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STATEMENT OF CHANGES IN STOCKHOLDERS' INVESTMENT

GEO. A. HORMEL & COMPANY

	Common Stock	Additional Paid-In Capital	Earnings Reinvested in Business
		(Thousands of Dollars)	
Balance at October 28, 1978	$ 9,006	$ 2,761	$ 148,979
Net earnings for the year			29,970
Cash dividends declared — $.74 a share			(7,109)
Balance at October 27, 1979	9,006	2,761	171,840
Net earnings for the year			32,758
Cash dividends declared — $.84 a share			(8,069)
Balance at October 25, 1980	9,006	2,761	196,529
Net earnings for the year			27,283
Cash dividends declared — $.92 a share			(8,838)
Balance at October 31, 1981	$ 9,006	$ 2,761	$ 214,974

See notes to financial statements

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STATEMENTS OF EARNINGS

GEO. A. HORMEL & COMPANY

	Fiscal Year Ended October 31, 1981	October 25, 1980	October 27, 1979
	(Thousands of Dollars)		
Sales, less returns and allowances	$ 1,433,966	$ 1,321,966	$ 1,414,016
Costs and expenses:			
Cost of products sold	1,224,910	1,113,622	1,220,492
Selling and delivery	140,327	127,921	117,124
Administrative and general	25,359	22,330	20,058
Other expense (income)	124	(669)	(1,766)
Interest	2,346	1,908	4,013
	1,393,066	1,265,112	1,359,921
EARNINGS BEFORE INCOME TAXES	40,900	56,854	54,095
Provision for income taxes — Note E	13,617	24,096	24,125
NET EARNINGS	$ 27,283	$ 32,758	$ 29,970
EARNINGS PER SHARE	$ 2.84	$ 3.41	$ 3.12

See notes to financial statements

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STATEMENTS OF CHANGES IN FINANCIAL POSITION

GEO. A. HORMEL & COMPANY

	October 31, 1981	October 25, 1980	October 27, 1979
	Fiscal Year Ended		
	(Thousands of Dollars)		
Working capital at beginning of year	$ 69,843	$ 84,646	$ 77,523
Additions:			
From operations:			
Net earnings for the year	27,283	32,758	29,970
Provision for depreciation	13,887	13,452	12,102
Deferred income taxes	5,540	4,100	683
TOTAL FROM OPERATIONS	46,710	50,310	42,755
Additions to long-term debt	37,606		
Carrying value of disposals of property, plant and equipment	647	604	118
	84,963	50,914	42,873
Deductions:			
Payments and maturities of long-term debt	267	254	244
Additions to property, plant and equipment	82,522	55,669	27,441
Cash dividends on Common Stock	8,838	8,069	7,109
Increase in investments and other assets	3,739	1,725	956
	95,366	65,717	35,750
INCREASE (DECREASE) IN WORKING CAPITAL	(10,403)	(14,803)	7,123
WORKING CAPITAL AT END OF YEAR	$ 59,440	$ 69,843	$ 84,646
CHANGES IN COMPONENTS OF WORKING CAPITAL			
Increase (decrease) in current assets:			
Cash	$ (187)	$ (2,412)	$ 3,256
Short-term marketable securities	3,161	(28,355)	29,695
Accounts receivable	2,491	4,882	1,364
Inventories	(6,328)	18,188	(5,561)
Prepaid expenses	(1,079)	1,164	(594)
	(1,942)	(6,533)	28,160
Increase (decrease) in current liabilities:			
Notes payable	(257)	151	36
Accounts payable and accrued expenses	7,408	14,979	15,504
Dividend payable	192	240	144
Federal income taxes	1,106	(7,111)	5,342
Current maturities of long-term debt	12	11	11
	8,461	8,270	21,037
INCREASE (DECREASE) IN WORKING CAPITAL	$ (10,403)	$ (14,803)	$ 7,123

See notes to financial statements

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NOTES TO FINANCIAL STATEMENTS

GEO. A. HORMEL & COMPANY

OCTOBER 31, 1981
(Thousands of Dollars)

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The financial statements include the accounts of Geo. A. Hormel & Company and all of its majority-owned subsidiaries after elimination of all significant intercompany accounts, transactions and profits. Investments in unconsolidated foreign companies are included in the financial statements at the Company's equity therein.

Segment Information: Hormel is engaged in a single business segment designated as "meat and food processing". As a federally inspected food processor, it slaughters livestock for processing into meat products which are sold at the wholesale trade level. Export sales account for less than 2% of sales. No customer accounts for more than 4% of sales.

Inventories: Inventories are valued at the lower of cost or market. Livestock and the materials portion of products are determined by the first-in, first-out method. Inventoriable expenses, packages and supplies are determined by the last-in, first-out method.

Oil and Gas Programs: Investments and other assets include $5,672 as of October 31, 1981, representing unamortized costs incurred in various oil and gas programs. Costs to acquire property interests, whether proved or unproved, are capitalized when incurred as are all development costs relating to productive oil and gas wells. Exploratory dry hole costs are expensed as incurred. Capitalized costs of properties which become productive are amortized in relation to production.

Property, Plant and Equipment: Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the related assets.

Pension Plans: The Company has several pension plans covering substantially all of its employees. The Company's policy is to fund pension costs accrued which includes amortization of prior service costs over a period of thirty years from the date of inception or date of amendment of the plans.

Income Taxes: Provision is made in the financial statements for deferred income taxes arising primarily from timing differences in accounting for depreciation and interest for tax and financial reporting purposes. Investment tax credits are recorded under the flow-through method of accounting as a reduction of the current provision for federal income taxes.

Earnings Per Share: Earnings per share of Common Stock are based on the weighted average number of shares outstanding during the year.

Fiscal Year: The Company's fiscal year ends on the last Saturday in October. Fiscal year 1981 consisted of 53 weeks; fiscal 1980 and 1979 consisted of 52 weeks.

NOTE B — INVENTORIES

Inventoriable expenses, packages and supplies amounting to approximately $21,300 at October 31, 1981, $22,600 at October 25, 1980 and $22,100 at October 27, 1979, are stated at cost determined by the last-in, first-out method, and are $18,200, $14,600 and $10,100 lower in the respective years than such inventories determined under the first-in, first-out method.

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NOTE C — LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt consists of:

	October 31, 1981	October 25, 1980
Commercial paper	$ 37,606	$ —
9% Notes	25,000	25,000
Capitalized leases	3,495	3,750
	66,101	28,750
Less current maturities	267	255
	$ 65,834	$ 28,495

Effective October 30, 1981, the Company entered a revolving credit/term loan agreement with three banks enabling it to borrow up to $75,000 through October 15, 1984. The outstanding balance at that date can be converted to term notes payable in annual installments through 1988. The interest rate on outstanding borrowing is based upon a formula contained in the agreement which, in general, results in a rate equal to and floating with the U.S. prime rate, 1/2% above the London Interbank Offering Rate, or 3/4% above the bank's certificate of deposit rate, at the Company's option. In addition, a commitment fee of 3/8% per annum is payable on the unused portion of the revolving credit commitment. The agreement requires the Company to maintain certain financial ratios and meet certain net worth and indebtedness tests. The Company is in compliance with these covenants at October 31, 1981.

At October 31, 1981, $37,606 of short-term commercial paper has been reclassified to long-term debt reflecting the Company's intention to refinance this amount during the subsequent fiscal year through either continued short-term borrowing or utilization of available revolving bank credits.

The 9% notes are due in 1985 and contain certain provisions and restrictions relating to limitations on liens, sale and lease back arrangements, and funded debt. The Company is in compliance with the provisions and restrictions of the Note Agreement at October 31, 1981.

At October 31, 1981, the Company had unused lines of credit of $107,000 comprised of $32,000 for short-term borrowing and $75,000 (in the form of revolving credits) for long-term borrowing. Of the available revolving credits, $37,606 was utilized by the Company as backup for the outstanding commercial paper. Unused lines of credit at October 25, 1980, totaled $18,550 for short-term borrowing.

In connection with the lines of credit to support short-term commercial paper borrowings, the Company generally maintains average compensating balances, based upon bank ledger balances adjusted for uncollected funds, equal to 5% of the banks' commitments plus 5% of borrowings. Based upon outstanding borrowings and total bank commitments at October 31, 1981, the Company should maintain average compensating balances of approximately $1,580, which stated in terms of the Company's book balances, is approximately $3,390. The difference is attributable to uncollected funds. During the year ended October 31, 1981, the Company maintained average collected balances of approximately $4,643 (including $4,640 relating to its average unused lines of credit). Compensating balances are not restricted as to withdrawal.

Maturities of long-term debt for the five fiscal years subsequent to October 31, 1981, are as follows: 1982 — $267; 1983 — $279; 1984 — $291; 1985 — $34,706; 1986 — $9,720.

NOTE D — PENSION PLANS

Contributions to the Company's pension plans for 1981, 1980 and 1979 were $16,900, $16,110 and $15,100, respectively. Approximately two-thirds of the pension costs relate to union plans. Accumulated plan benefit information, as estimated by consulting actuaries, and plan net assets for the Company's plans as of the latest valuation dates were:

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	October 25, 1980	October 27, 1979
Actuarial present value of accumulated plan benefits:		
Vested	$ 206,751	$ 186,393
Non-vested	16,630	17,068
	$ 223,381	$ 203,461
Net assets available for benefits	$ 169,299	$ 138,358

The interest assumption used in determining the actuarial present value of accumulated plan benefits for both years was 7%.

NOTE E — INCOME TAXES

The components of the provision for income taxes are as follows:

	1981	1980	1979
Current:			
U.S. Federal	$ 7,578	$ 18,114	$ 21,524
Foreign	237	249	280
State	262	1,633	1,638
	8,077	19,996	23,442
Deferred:			
U.S. Federal	5,044	3,928	482
State	496	172	201
	5,540	4,100	683
	$ 13,617	$ 24,096	$ 24,125

Included in the provision for deferred federal income taxes is the effect of timing differences for depreciation (1981 — $2,261; 1980 — $1,365; 1979 — $1,050) and interest costs (1981 — $3,676; 1980 — $491).

Income taxes have not been provided on net income of $620,000 accumulated in the Company's Domestic International Sales Corporation (DISC) through 1981.

Reconciliation of the statutory federal income tax rate to the Company's effective tax rate follows:

	1981	1980	1979
U.S. statutory rate	46.0%	46.0%	46.3%
State taxes on income, net of federal tax benefit	1.0	1.7	1.8
Investment tax credits	(16.1)	(6.8)	(3.6)
All other, net	2.4	1.5	.1
Effective tax rate	33.3%	42.4%	44.6%

NOTE F — ACCOUNTING CHANGE

Effective October 28, 1979, the Company changed its method of accounting for interest costs to comply with Financial Accounting Standards Board Statement No. 34. The Company previously followed the policy of expensing interest costs as incurred. As a result of the change, interest costs of $8,000 and $1,068 incurred during fiscal 1981 and 1980, respectively, were capitalized as part of the cost of newly constructed manufacturing facilities. This accounting change increased net income for fiscal 1981 and

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1980 by $3,995 and $577 ($.42 and $.06 per share). Fiscal 1979 financial statements were not restated because FASB Statement No. 34 prohibits retroactive application.

NOTE G — LEASES

Rental expense and future lease commitments are not material.

NOTE H — CONSTRUCTION IN PROGRESS

The estimated costs to complete construction in progress at various locations at October 31, 1981, is approximately $35,000.

NOTE I — QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following tabulation reflects the unaudited quarterly results of operations for the years ended October 31, 1981 and October 25, 1980.

1981	Net Sales	Gross Profit	Net Earnings	Earnings Per Share
First Quarter	$ 354,240	$ 46,369	$ 4,905	$ .51
Second Quarter	340,987	56,555	8,069	.84
Third Quarter	342,461	50,935	6,848	.71
Fourth Quarter*	396,278	55,197	7,461	.78
	$ 1,433,966	$ 209,056	$ 27,283	$ 2.84
1980				
First Quarter	$ 327,833	$ 56,278	$ 12,190	$ 1.27
Second Quarter	306,662	46,257	4,796	.50
Third Quarter	314,694	54,427	9,506	.99
Fourth Quarter	372,777	51,382	6,266	.65
	$ 1,321,966	$ 208,344	$ 32,758	$ 3.41

*Includes 14 weeks

NOTE J — SUPPLEMENTAL INFORMATION ON THE EFFECTS OF INFLATION (Unaudited)

The following supplemental information is presented to comply with Statement No. 33 issued by the Financial Accounting Standards Board (FASB), "Financial Reporting and Changing Prices". The disclosures were developed for the purpose of measuring the effect of inflation on the operations of companies.

It is important that financial statement users understand that the disclosures attempt to measure the effect of inflation on Hormel, yet they are experimental in nature and should be used with caution in making comparisons with other companies since assumptions and methodology used in preparing the disclosures may vary among companies.

Traditional financial statements prepared using generally accepted accounting principles are based on transactions entered into and completed using the historical dollar and are not designed to show all the effects of inflation. The disclosures of FASB No. 33 require adjusting the historical statement of earnings and certain assets and liabilities by two different methods: current cost and constant dollar.

The current cost method used by the Company values fixed assets and inventories presently owned at their current cost at year-end, except for the manufacturing facility in Austin, Minnesota, which will be replaced in 1982 by a new facility presently under construction. Current costs for this plant are determined using cost to complete offset by the present value of operational savings anticipated over the

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life of the facility. Depreciation expense and cost of products sold are based on these restated values. The constant dollar method values fixed assets and inventories by applying the Consumer Price Index to the historical cost of fixed assets and inventories to bring the cost up to average fiscal 1981 purchasing power. Depreciation expense and cost of products sold are based on these restated values.

The provision for income taxes included in the supplemental statement of earnings is the same as reported in the historical statement of earnings. Present tax laws do not allow deductions for higher depreciation adjustments for the effects of inflation. During periods of persistent inflation and rapidly increasing prices, such a tax policy frequently results in effective tax rates in excess of statutory rates.

Earnings Adjusted for Inflation for The Year Ended October 31, 1981	**Current Cost**	**Constant Dollar**
Earnings before taxes as reported in the historical Statement of Earnings	$ 40,900	$ 40,900
Excess of adjusted cost of products sold over historical cost of products	-0-	(6,547)
Excess of adjusted depreciation over historical depreciation	(2,042)	(2,521)
Adjusted earnings before income taxes	38,858	31,832
Provision for income taxes as reported in the historical Statement of Earnings	(13,617)	(13,617)
Adjusted earnings	$ 25,241	$ 18,215
Adjusted earnings per share	$ 2.63	$ 1.90
Adjusted net assets at year-end	$ 280,272	$ 279,313

ADJUSTED EARNINGS — CURRENT COST

Earnings adjusted for the current cost method are $25,241 compared to historical earnings of $27,283. The impact of inflation on the Company's earnings measured under the current cost method is small because of the rapid turnover of meat inventories and the application of the LIFO inventory method for all other inventories and because of the continuing effort of the Company to increase productivity by maintaining technologically current manufacturing facilities.

ADJUSTED EARNINGS — CONSTANT DOLLAR

The adjusted earnings for constant dollar method are $18,215 and differ from adjusted earnings for the current cost method because the historical cost of products sold must be adjusted by the Consumer Price Index to reflect average fiscal 1981 purchasing power. This adjustment does not present true market conditions since selling prices of the Company's products are responsive to current costs.

Purchasing Power Gain Due to Net Monetary Liabilities Position

During fiscal 1981, the Company maintained a net monetary liability position, which means monetary liabilities (current liabilities and long-term debt) exceeded monetary assets (cash, accounts receivable and marketable securities). With prices increasing during 1981, the net monetary liability position resulted in a gain of general purchasing power of $8,000.

Increases in Current Cost of Inventories and Properties

Under current cost accounting, increases in specific prices of inventories and properties held during the year (including realized gains and losses on those sold or used) are not included in earnings but are presented separately. The current cost increase is reduced by the effect of general inflation measured by applying the annual rate of change in the CPI to the average current cost balances of inventories and properties. The increase in current cost for fiscal 1981 consists of the following amounts:

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Increase during 1981 in the value of inventories and property, plant and equipment in constant dollars	$35,886
Increase in current cost during 1981	15,751
Excess of increase in general price level over increase in current cost during 1981	$20,135

On October 31, 1981, current cost of inventory was $108,045 and current cost of property, plant and equipment, net of accumulated depreciation, was $277,116. Historical costs were $89,690 and $228,813, respectively.

COMPARISON OF SELECTED SUPPLEMENTAL FINANCIAL DATA ADJUSTED FOR EFFECTS OF INFLATION

	Year Ended in October				
	1981	1980	1979	1978	1977
Net sales:					
Historical	$ 1,433,966	$ 1,321,966	$ 1,414,016	$ 1,244,865	$ 1,106,274
Constant dollars	1,433,966	1,466,121	1,781,620	1,735,443	1,653,867
Earnings:					
Historical	27,283	32,758			
Constant dollars	18,215	25,397			
Current cost	25,241	33,702			
Earnings per share:					
Historical	2.84	3.41			
Constant dollars	1.90	2.64			
Current cost	2.63	3.50			
Excess of increase in general price level over increase in specific prices of inventories and properties	20,135	9,597			
Purchasing power gain from holding net monetary liabilities during the year	8,000	3,550			
Net assets at year-end:					
As reported	226,741	208,296			
Constant dollars	279,313	276,623			
Current cost	280,272	276,441			
Cash dividends per share:					
Historical	.92	.84	.74	.68	.56
Constant dollars	.92	.93	.93	.95	.84
Market price per share at year-end:					
Historical	15.75	19.12	16.16	12.25	12.19
Constant dollars	15.01	20.22	19.13	16.37	17.74
Average consumer price index	268.5	242.1	213.1	192.6	179.6

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Liquidity and Sources of Capital
The Company generated working capital from operations of $42,755,000 in 1979, $50,310,000 in 1980, and $46,710,000 in 1981. Proper controls continue to provide excellent turnover of inventory and receivables.

Cash flow from operations and the sale of short-term commercial paper has been the principal source of funds to finance the historically large capital expenditures during this three-year period. Additions to property, plants and equipment rose from $27,441,000 in 1979 to $55,669,000 in 1980 and $82,522,000 in 1981. The principal capital expenditure commitment is for the one million square-foot Austin, Minnesota, replacement plant which will be completed in early 1982. This plant is highly automated and is expected to provide a significant improvement in productivity.

A revolving credit/term loan agreement with three banks, as outlined in Note C of the financial statements, is backup for the Company's short-term commercial paper borrowing.

The Company intends to issue long-term notes when the debt market provides an opportunity at a reasonable rate of interest.

For a discussion of the estimated impact of inflation on the Company's financial statement, see pages 40 through 42, which contain the supplementary information on inflation that is required by the Statement of Financial Accounting Standards Board No. 33, Financial Reporting and Changing Prices.

Results of Operations
Sales and gross earnings in the meat packing industry are influenced to a significant degree by the fluctuating cost of livestock and consumers' demand for meat products. The following discussion analyzes material changes in the major items:

1981 and 1980
Sales increased $112,000,000, or 8.5%, over 1980. The increase was a reflection of higher prices as well as recognition of a 53-week year in 1981 versus a 52-week year in 1980. Tonnage in 1981 declined slightly, 2.3%, which is largely attributed to the closing of the Company's Scottsbluff (Neb.) contract beef plant. The increase in cost of products sold during 1981 was due principally to higher costs for livestock, payroll taxes, utilities, packaging and supplies. Selling, delivery and administrative expenses increased $15,435,000, or 10.3%, compared to 1980, reflecting higher costs for salaries, fringe benefits and transportation.

Advertising costs increased $4,368,000, or 24.6%, over 1980, due to higher media costs and the Company's strategy to increase sales of branded products.

Income taxes were $13,617,000 for 1981 and $24,096,000 for 1980 with an effective tax rate of 33.3% and 42.4%, respectively. Investment credit is applied using the flow-through method which reduced the effective rate below the statutory 46% rate.

Earnings of $27,283,000 were 16.7% lower than 1980; however, net income for 1981 was the third highest in the Company's history, exceeded only in 1980 and 1979, respectively. Prices for meat at retail during 1981 were inadequate to provide acceptable margins for producers and meat processors throughout the industry. Net income equaled 1.90 cents per dollar of sales in 1981 and 2.48 cents per dollar of sales in 1980.

1980 and 1979
Company sales decreased by $92,050,000, or 6.5%, in 1980 compared to the record high of 1979. The decrease was due largely to a reduction in fresh meat volume which has a low margin of profit. The Company closed the Mitchell (S.D.) hog slaughtering plant, operated the hog slaughtering at the Fremont (Neb.) plant at less than full capacity, and shut down the beef slaughtering plant at Miami, Oklahoma. The principal effect of these actions was to make less fresh pork and beef available for sale.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(Continued)

Advertising expenditures increased 14.6%, or $2,256,000, in 1980 compared to 1979, partly as a result of the Company's continuing strategy to develop new programs to make the consumer more aware of the dependability and high quality of Hormel products and partly due to increasing media rates.

Maintenance and repair costs of $23,831,000 in 1980, compared to $20,016,000 for 1979, reflected the higher costs of service labor and repair supplies which is inherent in the operation of highly automated production equipment.

Interest expense decreased from $4,013,000 in 1979 to $1,908,000 in 1980 because of reduced short-term borrowing and the change in accounting for capitalizing interest on construction as required by the Financial Accounting Standards Board Report No. 34.

Earnings of $32,758,000 were the highest in the Company's history, which equaled 2.48 cents per dollar of sales in 1980 and 2.12 cents per dollar of sales in 1979.

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The accompanying financial statements were prepared by the management of Geo. A. Hormel & Company which is responsible for their integrity and objectivity. These statements have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances, and, as such, include amounts that are based on our best estimates and judgments.

Geo. A. Hormel & Company has developed a system of internal controls designed to assure that the records reflect the transactions of the Company and that the established policies and procedures are adhered to. This system is augmented by well-communicated written policies and procedures, a strong program of internal audit, and well-qualified personnel.

These financial statements have been examined by Ernst & Whinney, independent certified public accountants, and their report appears on page 29. Their examination is conducted in accordance with generally accepted audit standards and includes a review of the Company's accounting and financial controls and tests of transactions.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent public accountants, management, and the internal auditors to assure that each is carrying out its responsibilities. Both Ernst & Whinney and our internal auditors have full and free access to the Audit Committee with or without the presence of management, to discuss the results of their audit work and their opinions on the adequacy of internal controls and the quality of financial reporting.

R.F. POTACH
Vice President and Controller

R.L. KNOWLTON
President and Chief Executive Officer

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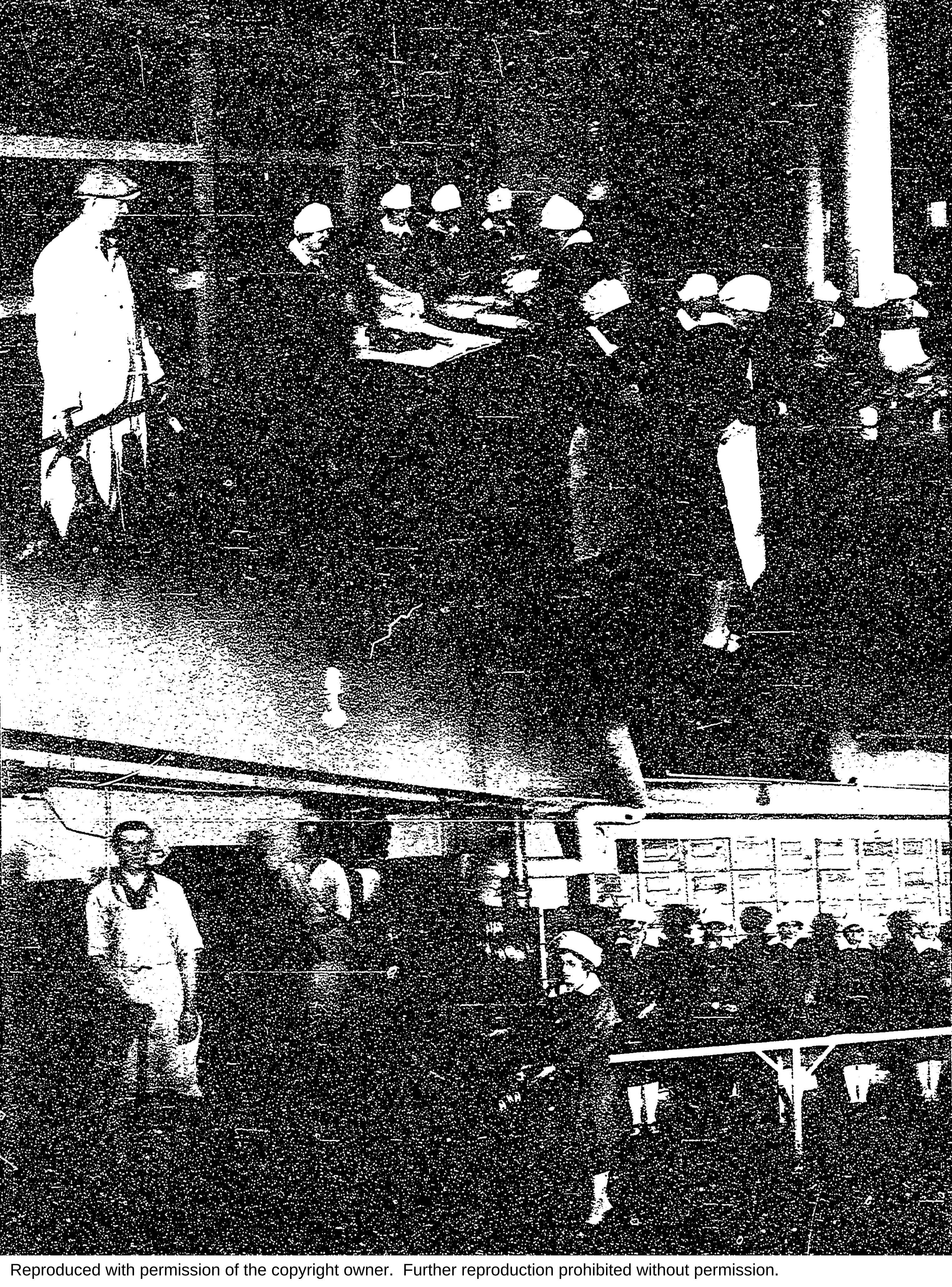

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